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GUARDING AGAINST WASTE, FRAUD, AND ABUSE IN POST-KATRINA RELIEF AND RECOVERY: THE PLANS OF THE INSPECTORS GENERAL

HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON ENERGY AND
COMMERCE

HOUSE OF REPRESENTATIVES

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GUARDING AGAINST WASTE, FRAUD, AND ABUSE IN POST-KATRINA RELIEF AND RECOVERY: THE PLANS OF THE INSPECTORS GENERAL

WEDNESDAY, SEPTEMBER 28, 2005

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2322 of the Rayburn House Office Building, Hon. Ed Whitfield (chairman) presiding.

Members present: Representatives Whitfield, Pickering, Walden, Burgess, Blackburn, Stupak, Schakowsky, Inslee, and Waxman.

Staff present: Mark Paoletta, chief counsel; Anthony Cooke, majority counsel; Peter Spencer, professional staff; Jonathan Pettibon, legislative clerk; Chris Knauer, minority professional staff; and Chris Treanor, assistant.

Mr. WHITFIELD. Good morning, and I want to bring this hearing to order this morning.

The subject of our Oversight and Investigations hearing is guarding against waste, fraud, and abuse in post-Katrina relief and recovery, and the plans of the Inspectors General, and we have a number of them here today. I would also like to make the comment that it came up rather sudden, but there is a markup of Energy and Commerce taking place as we sit here this morning, on refinery capacity, and an energy bill relating to some refinery issues, so we may be called periodically to go down for votes in the committee, which is two floors down, and of course, we will always have events going on on the House floor, but we genuinely appreciate all of you witnesses being with us this morning, and we will do everything that we possibly can to expedite this hearing. We certainly consider it to be an important hearing, and one of many that we will be having. And so with that, I will give my opening statement, and then, I will recognize Mr. Inslee for his opening statement.

Today, the subcommittee will examine an area that really involves a lot of tension. We want to protect the taxpayers. As you know, the Congress has appropriated $62.3 billion in post-Katrina aid. We want to make sure that the taxpayers are protected, and that we minimize waste, fraud, and abuse. At the same time, it is essential that this money be delivered in a timely manner to expedite the recovery process for individuals and projects in affected

areas. As I said, Congress has already appropriated more than $60 billion in disaster funding. These funds, dispersed principally through the Department of Homeland Security, along with other Federal spending, will provide much-needed support in recovery. The size of this Federal support is unprecedented, dwarfing any other single disaster request. In point of fact, Katrina now accounts for fully 40 percent of all funds that have been authorized for the Disaster Relief Fund over the past 30 years.

The size of this post-Katrina funding is matched by the scope and complexity of the task of recovery assistance. This task, while still unfolding, will entail the resources and activity of scores of programs across the government. Many of these involve issues that come under this committee's jurisdiction, such as public health, energy, environmental, telecommunications, and economic policies.

With this increased size and complexity also comes increased opportunity for problems. As is necessary for such emergency relief and recovery, regulations are waived, contract requirements loosened, safeguards to ensure careful spending are lifted to speed relief. Today's hearing will help the subcommittee take measure of efforts to address the threats of waste, fraud, and abuse. The hearing will also help us understand how the agency watchdogs, the Inspectors General, are policing areas and programs that may require close tracking as resources are shifted to address recovery.

What has been the past experience with disaster relief? Where have agency efforts and assistance been inefficient and wasteful? With increased funds and program activity, there easily can be areas of overlap and duplication, as well as calls for work in the name of relief that, in fact, may not be so urgent.

Let me note at the outset that this hearing is just the beginning of our oversight of recovery issues. The facts we gather today will provide necessary initial guidance. As we move forward on this front, we will rely on regular feedback from the Inspectors General. The Inspectors General perform a critical function in agency and program oversight, and are essential for informing Congressional oversight.

With this in mind, I would like to request that each of the Inspectors General before us today provide directly to us, to the committee, in 3 months, a progress report of what you are finding, so that we can more effectively ensure with you that money gets to the right people and projects.

Today, we will hear from a number of Inspectors General or their deputies from the Department of Homeland Security, which is managing the disaster relief, the Department of Defense, which, at this point is responsible for a large, or share of the spending, as well as from agencies within the committee's core jurisdiction, to gather information on their plans and the issues that they will confront in this rebuilding effort. We will also hear from the Government Accountability Office, another key player in the oversight community, which will provide testimony on larger issues raised concerning disaster response, coordination, and planning.

I would like to thank all of the witnesses for taking the time to attend this morning on such short notice and amidst all of the burdens of the relief effort. Let me extend a special welcome to Richard Skinner, the Inspector General for the Department of Home-

land Security. You have been heading up the main coordinating effort among the various IGs working on disaster relief auditing plans, and I look forward to your contribution to the discussion today.

There are a lot of topics for us to examine this morning, and so I will now turn to my good colleague and friend, Mr. Inslee, the ranking member, for this hearing, and for his opening statement.

Mr. INSLEE. Thank you, Mr. Chairman. A very important matter, obviously, I know Americans are very concerned about the propriety and how we assure that these tax dollars are spent wisely.

It is very unfortunate that we are going to be short-handed today because we could not reschedule the markup on the energy bill that is being heard, but we are going to do the best we can, and we will have as many folks as we can hear today.

I just wanted to make one personal note that is somewhat associated with this issue, and that is to note for Americans, while we are talking about how to ensure the proper expenditure of their taxes, I want to note the incredible gratitude and appreciation of those folks who now are in extremis from these two hurricanes. And the reason I say that, the reason I know that is I went to down to the Houston Astrodome on Labor Day to join about 10,000 Texans who are volunteering—I am from the State of Washington—to help folks in the Houston Astrodome, and I met these family that had, obviously, just shortly have been removed from the Super Dome in New Orleans, and the message I wanted people to know from those folks is those folks are the most resilient, gracious, dignified under pressure, and most importantly, appreciative of what other Americans are doing for them right now, and I think they would want to spread that message around the country of how grateful folks whom we are we helping in some way, including these Federal dollars that we hope to use in an efficient—because we do have about 200 letters from my constituents to them, and they were just so touched, and I think it is important for us to realize how appreciative these folks, who are still scattered across the country, are to the largesse and heartfelt wishes of all Americans.

But it is important that we do this job right, as well, for the taxpayers, and that is why I am glad we are having this hearing today. The plight of many Americans from this region is really akin to the displacement, once described by Steinbeck about the mass movement of people during the Great Depression, and perhaps, we should look at it on that dimension. And as we move forward to help restore these communities—New Orleans, Biloxi, Gulfport, Port Arthur, Grand Isle, Cameron, Slidell, to name just a few—we have got to help to restore the Nation as a whole, and we have got to make sure that this aid is properly stewarded, and these precious tax dollars.

Now, Mr. Chairman, I have a great concern in the days to come, we are going to be hearing stories about exotic, unnecessary, grossly overpriced purchases of goods and services under the guise of provided hurricane relief and recovery. We are already seeing articles to that extent. We see in the New York Times that 80 percent of the $1.5 billion of contracts awarded by FEMA just in the first week were awarded without any bidding whatsoever, and there are some concerns about the contractors to whom these were rewarded.

I think we need to ask hard questions why we couldn't have a 15-minute bidding process, even in an emergency situation on this situation when we have seen political connections come into question about these kind of contracts. We need to ask those hard questions.

And we see issues of this cruise ship situation, where—and this is interesting, when I was in Houston, I was in a control post, and there were real serious questions being asked whether it made sense to rent these cruise ships, because people were not going to get on them. Questions were already being raised on Labor Day about this subject. But we see this cruise ship deal that taxpayers are paying $21,475 a week when you can 7-day Western Caribbean cruise for $599. We were asked some pretty hard questions about that situation as well. These are just two examples. We have heard of services paid for by the Government that have been substantially overpriced.

It has been a month since Katrina hit, almost. To date, billions have been appropriated; billions more will be needed. And we need to have an aggressive accounting in that regard. Today, we have got a very distinguished panel of Inspectors General, and they will explain from each of their respective roles how we need to manage these funds; yet—and with my full respect for the work that we are both trying to do—it does not appear that a single Inspector General is in full charge of seeing that these moneys are wisely spent. Moreover, it does not appear that there exists a single place in the Federal Government where Katrina-related funds are being managed, recorded, and evaluated for their effectiveness.

At a minimum, Mr. Chairman, I believe we need to know the following: No. 1, in the short term, who is directing this recovery effort from the 30,000-foot perspective, and who at the Federal level is sorting out the priorities for the billions of dollars in recovery money for the immediate cleanup and recovery work? Is this effort centralized, so that instances of contracts that are wasteful, duplicative in nature, or even working at cross-purposes, to where the contracts can be spotted? We can cite the one example we have already talked about on this cruise ship. Is it economical to continue this contract to house workers and evacuees? And who already knows the answer to that question?

And second, is there a long-term, strategic plan for rebuilding the Gulf Coast? Are we going to let four different Governors and countless mayors and other politicians spend money as they see fit, as they deem fit? Mr. Chairman, before hundreds of millions of dollars are expended, it is essential that the Congress and this administration develop a strategic plan that not only represents the goals of this effort, but a roadmap of how we are going to get there and why. The public needs to know how their money will be spent, for what purposes and that is being spent without political favor. And frankly, we have already seen concerns about that that replicate some of concerns regarding the contracting process in Iraq. Hard questions need to be asked.

The citizens of the Gulf Coast need to know that the rebuilding of their communities is a primary goal of all this spending, and I can guarantee you that the CEO or CFO of any private company would not begin such a massive project without how certain money will be expended and what it will achieve. I fear that 2 years from

now, billions will have spent on lucrative but unnecessary contracts, services, and other items, but the recovery of the many communities affected by these storms will not have been realized. Mr. Chairman, having a strategic roadmap of what we are trying to do, and how we will do it is perhaps the most important financial control we can put in place to protect previous taxpayer dollars. To date, we have no such plan.

Question No. 3: is there a central repository where all recovery dollars can be tracked, so that the public can actually see how its money is being spent? It is critical to maintain the support of the American people in this effort. That is a very important point that we can't let stories like this diminish the political will to achieve this purpose, to help these folks in these desperate plights. And this will require immediate transparency in a publicly accessible data base.

While I believe that each agency or department will be able to consolidate and track funds related to their own missions, there must be a central repository to consolidate the related expenditures across all such agencies, so that duplication, waste, or conflicting contracts can be identified and eliminated. These contracts should not only be trackable, but there should be enough sufficient detail to describe what they are, why they are needed, and what they are intended to accomplish.

Fourth question: even if there is a strategic spending plan, is there a plan to make sure the money is being well spent and accomplishes the plan? The American people are being asked to dig very deep. These are significant sums of taxpayer money, and this hurricane recovery, we may give $200 billion. It is critical that we protect these funds from fraud, waste, and abuse. As I have indicated, that there are already questions about noncompetitive bidding, work being given to nonlocal firms, which slows down the local economic recovery, and there are many more contracts to be issued. Mr. Chairman, I do not see in place an adequate, fully detailed structure to prevent these abuses, which we have already seen, from continuing to be replicated. And frankly, we still, after 3 years, have not solved our contracting problems overseas. We do not want to see that replicated domestically.

Question No. 5: finally, Mr. Chairman, these Inspectors Generals also need to look at what didn't work in their own agencies during this catastrophe. The Department of Homeland Security published a massive National Response Plan in December of last year to establish "a comprehensive national all-hazards approach to domestic incident management across a spectrum of activities including prevention, preparedness, response, and recovery." It incorporated the "best practices and procedures" from various incident management disciplines, and one of its purposes was to provide a proactive and integrated Federal response to catastrophic events.

We have had a catastrophic event. There was no proactive, integrated Federal response. Mr. Brown, the former head of FEMA, spent most of his testimony yesterday blaming the Democratic Governor of Louisiana for all of the problems, even though, as the New York Times documented yesterday, over 200 people died in Republican Mississippi, mostly because they did not evacuate. This should not be a partisan-sniping session. We need to know what

good was this plan if it doesn't work. And I just want to express—I know all Americans of both parties are concerned about multiple failures on multiple government levels. But speaking as a Federal official, when we tried to get the active duty of the U.S. military into New Orleans to rescue these people on rooftops, and when I called FEMA myself, early in the week of this hurricane, when it was obvious that the only resource on the planet Earth that could rescue these people were the active-duty military personnel of the United States Army and Marines and Navy, all we got was we are thinking about it. And 48 hours passed until there was really any decision to use the active-duty military personnel of this country.

And speaking as a person who was watching these people on these rooftops, as a Federal official, calling repeatedly to the highest officials in FEMA that we could get a hold of, and the United States military, to have no response for 48 hours was a massive tragedy. And if you had gone down to the Astrodome like I have done, and you have seen these people—and still couldn't get it on Labor Day, just to tell you one little story of how difficult this was. On Labor Day, the second Monday, I tried to get someone to rescue an 80-year-old woman. We couldn't get that job done with the entire forces of the United States, the most powerful nation on Earth.

We have some questions we have to ask. I will try to be brief here, Mr. Chair. You have been most gracious. I shall try to wrap up there. I want to thank the witnesses for their efforts. I look forward to their testimony, and I look forward to a great bipartisan effort to try to assure for our taxpayers, on our mission of saving these evacuees, we accomplish our mission of being careful with taxpayer dollars as well.

Thank you, Mr. Chairman.

Mr. WHITFIELD. Thank you, Mr. Inslee, and once again, I want to welcome the witnesses. We want you to know how much we appreciate your being here. We know that you have a difficult task ahead of you, and we do look forward to your testimony.

[Additional statements submitted for the record follow:]

PREPARED STATEMENT OF HON. CLIFF STEARNS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Thank you, Mr. Chairman, for holding this hearing on guarding against waste, fraud and abuse in post-Katrina relief and recovery.

There is no doubt that we need ongoing and thorough oversight and accountability of this admittedly huge and difficult process.

We owe that much to our constituents, who are footing the bill for relief and recovery.

We have already spent over $62 billion, according to some estimates Congress will appropriate over $200 billion. This is approximately $2,000 per U.S. household. Another way to look at it is, we can give each of the 500,000 families who were adversely affected by Katrina about $400,000. Even in today's housing market, that buys a pretty nice home.

We want to get relief to those Americans who have been truly hurt by Katrina. But what we have had here in some respects is a taxpayer-funded shopping spree, in which $2,000 debit cards have been handed out to tens of thousands of alleged victims of Katrina. This is surely not the best way to ensure good stewardship of our constituents' tax dollars.

Although I am sure these debit cards have helped in many cases, there still have been several reports that some people have spent this government-issued money at strip clubs and other disreputable establishments.

In another example, an upscale store reported selling two monographed luxury handbags for $800 each to women using these cards.

We will undoubtedly hear of more examples of waste, fraud and abuse in the weeks and months to come.

There are also billions of dollars worth of federal contracts that were awarded in the aftermath of Katrina, because of time restraints caused by the disaster, via a streamlined process.

Although I understand it is sometimes necessary to waive certain safeguards in order to respond in a prompt fashion to help those in need, this only further proves that that we need to provide even more oversight to ensure that waste, fraud and abuse are kept to a minimum.

Last week, an investigative report by the Orlando Sun-Sentinel revealed that, in a recent five-year span, FEMA spent $330 million taxpayer dollars on communities that were not adversely affected by natural disasters. Money was allocated needlessly by the federal government, and in many cases, individuals did their best to scam the government:

"From California to the Carolinas, Florida to Michigan—FEMA assistance is called free, easy money and scamming schemes are openly discussed."

Mr. Chairman, people who intentionally defraud FEMA are taking money away from those who are truly in need. And FEMA is obligated to ensure that taxpayer dollars go only to those people who suffered legitimate losses.

I am still trying to get FEMA to fully reimburse counties in my district from last year's hurricane season. It is extremely frustrating to read how much money has been wasted or stolen in recent years, while my own constituents are forced to eat the bill for last year's hurricane season.

We must step up Congressional oversight of disaster relief and recovery. It's vital that we do so for Katrina, and for whatever natural disasters will inevitably come in the future. This hearing is a good first step in making FEMA and other federal agencies involved in disaster relief and recovery more responsible and accountable.

I look forward to the testimony of the witnesses we have here today, especially the inspector generals' plans for oversight and auditing of disaster relief and recovery funds.

PREPARED STATEMENT OF HON. MICHAEL C. BURGESS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, thank you for having this important hearing today. While many have called for an extensive investigation into the aftermath of Hurricane Katrina, I feel that this committee should have the primary oversight investigatory powers over this complicated situation. Not only does this committee have both subpoena power and a history of bipartisanship, this committee's jurisdiction will be significantly affected in coming months as the rebuilding and revitalization effort continues with programs related to public health, environmental cleanup, telecommunications, and economic development. Mr. Chairman, thank you for your leadership into this matter.

Never before has our country been faced with the challenges, and perhaps opportunities, due to a natural disaster of this size and proportion. My prayers continue to go out to the victims of Hurricane Katrina, and I firmly believe that our great nation has shown in the past that it can come together during times of great crisis; we will continue to rise to that challenge again now. But we must do this in a way that ensures we have accountability, not delinquency. We cannot let the needs of our citizens in the Gulf Coast Region be compromised by inefficient bureaucratic delay.

I share my colleagues' deep concern with regards to the coordinating relief and recovery efforts at the federal, state, and local level. Today, I hope this committee is able to learn of the current oversight initiatives being undertaken at the represented agencies before us. Hurricane Katrina taught us all that we need a better system in place when responding to catastrophic events. As a physician, I am particularly interested in hearing from the representatives from the Department of Health and Human Services. I'm still waiting for answers to basic questions such as why help was turned away. I look forward to the opportunity to discuss this with you in further detail, and to also learn of anticipated regulatory changes needed to help ensure that our public health system isn't endangered.

Again, Mr. Chairman, I thank you for this crucial hearing in which we can address some of these essential concerns regarding post-Katrina relief and recovery.

PREPARED STATEMENT OF HON. BART STUPAK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Thank you Mr. Chairman for having this very important hearing.

Today's hearing is a very important hearing. The American taxpayers have been asked to contribute more than $62 billion so far, and it is expected that when all is said and done, we will be asked to contribute $200 billion towards the relief effort and rebuilding of the Gulf Coast. It is our duty and obligation to help our fellow Americans get back on their feet.

As Congress moves forward in this effort, it is also out duty and obligation to ensure that those billions of dollars are spent wisely and not wasted on duplicative or fraudulent expenditures. Likewise, we have an obligation to ensure that the no-bid contracts that are entered into are not gauging the American Taxpayers. We have seen several examples of how these no-bid or quick bid contracts are being given to friends of the Bush Administration, former GOP Chair turned lobbyist, turned Governor Haley Barbour, and former FEMA Director Joe Albaugh.

One glaring example of these contracts listed in a recent New York Times article is a debris removal contract given to a company called AshBritt who is a former client of Governor Barbour's lobbying firm. AshBritt is receiving roughly $15 per cubic yard PLUS other costs for disposal of the material in landfills. The article goes on to tell how in a few Mississippi communities they found their own contractors to do the job for considerably less and their fees include disposal costs.

Another issue I am concerned about is the protection of whistle blowers who come forward with their concerns about fraud, waste or abuse. The Army Corps of Engineers has demoted or fired several whistle blowers recently after they expressed concern about no-bid contracts. We cannot allow these people who are trying to save taxpayer dollars to be harassed, intimidated or punished by their higher-ups. People need to be encouraged to report such activities.

Mr. Chairman, we need to set up a central clearinghouse with one person in charge of all Inspectors General. This clearinghouse should be accessible to the public and should include detailed information about how the monies are being spent. In addition, we need to have a detailed plan for reconstruction before any monies are doled out. In any business, you need a detailed business plan that shows you have a well thought out process by which you will proceed before you can obtain a loan from a bank. We should expect nothing less from our government officials in their reconstruction efforts.

Lastly, Mr. Chairman, I would like to ask these Inspectors General what their thoughts are about extending the statute of limitations by which we can go after fraud, waste and abuse. I have been informed by federal officials that quite often, they do not discover fraud until many years after it has occurred. The officials I spoke with wanted us to extend the statute of limitations to 15 or 20 years, so as they discover the fraud, they can still pursue the offenders. Certainly with a disaster the magnitude of Hurricane Katrin, the I.G.'s will not be able to catch the fraud immediately. We will be discovering instances several years down the line and I feel that we should give the I.G.'s the ability to investigate such instances.

Thank you again, Mr. Chairman, for holding this important hearing. I am disappointed that it is conflicting with the Energy Bill mark-up going on downstairs, because I know that many more of our members on this side of the aisle would have liked to give this hearing their undivided attention rather than having to pop in and out of the two hearings.

Mr. WHITFIELD. First of all, I am going to introduce the names of everyone that is here testifying today, and then, according to our procedures, because this is an Investigation and Oversight hearing, I will ask that you be sworn in for your testimony this morning.

Our first witness today will be Mr. Norman Rabkin, who is the Managing Director of Homeland Security and Justice Issues. We appreciate your being here. The Honorable Gregory H. Friedman, Inspector General with the U.S. Department of Energy—I am sorry. Mr. Rabkin, you are with the GAO. The Honorable Richard Skinner, Inspector General of the Department of Homeland Security, Office of Inspector General; the Honorable Thomas Gimble, Acting Inspector General of the U.S. Department of Defense; Mr. Joseph Vengrin, the Deputy Inspector General, Audits; and Mr. Michael Little, Deputy Inspector General, Investigations, with the

U.S. Department of Health and Human Services; the Honorable Nikki Tinsley, Inspector General, Environmental Protection Agency; the Honorable Johnnie Frazier, Inspector General, U.S. Department of Commerce; and the Honorable H. Walker Feaster, Inspector General at the Federal Communications Commission.

So once again, I want to thank all of you for being here. As I mentioned, this is an investigative hearing, and when doing so we do have the practice of taking testimony under oath. Do any of you object to testifying under oath this morning?

The Chair would also advise you that under the rules of the House, and certainly, the rules of this committee, you are entitled to be advised by counsel. Do any of you desire to be advised by counsel during your testimony today?

In that case, if you would, please rise and raise your right hand, I will swear you in.

[Witnesses sworn.]

Mr. WHITFIELD. Okay. All of you are now under oath, and we look forward to your testimony, and Mr. Rabkin, if you will, begin with your 5-minute opening statement.

TESTIMONY OF NORMAN J. RABKIN, MANAGING DIRECTOR, HOMELAND SECURITY AND JUSTICE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; GREGORY H. FRIEDMAN, INSPECTOR GENERAL, U.S. DEPARTMENT OF ENERGY, AND VICE CHAIR OF THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY; RICHARD L. SKINNER, INSPECTOR GENERAL, U.S. DEPARTMENT OF HOMELAND SECURITY, AND CHAIR, PCIE/ECIE HOMELAND SECURITY ROUNDTABLE; THOMAS F. GIMBLE, ACTING INSPECTOR GENERAL, DEPARTMENT OF DEFENSE; JOSEPH E. VENGRIN, DEPUTY INSPECTOR GENERAL FOR AUDITS, AND MICHAEL E. LITTLE, DEPUTY INSPECTOR GENERAL FOR INVESTIGATIONS, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; NIKKI L. TINSLEY, INSPECTOR GENERAL, ENVIRONMENTAL PROTECTION AGENCY; JOHNNIE E. FRAZIER, INSPECTOR GENERAL, U.S. DEPARTMENT OF COMMERCE; AND H. WALKER FEASTER III, INSPECTOR GENERAL, FEDERAL COMMUNICATIONS COMMISSION

Mr. RABKIN. Thank you, Mr. Chairman. I am pleased to be here today to discuss the plans for the oversight of the Nation's response to Hurricane Katrina.

All of us at the U.S. Government Accountability Office, as all Americans, were saddened by the destruction that Hurricane Katrina caused throughout the Gulf Coast. One of the many roles of government is to provide for its citizens at a time when they are most in need. Although the role of auditors pales when compared to those providing rescue, relief, and recovery, we have our place in ensuring that Federal dollars are being properly accounted for and are being spent wisely.

GAO has a long history of providing the Congress with detailed and strategic analyses of issues related to the government's response to disasters. For example, after Hurricane Andrew devastated portions of South Florida in 1992, we provided strategic insights into needed improvements in the Nation's response to cata-

strophic disasters. Since the terrorist attacks of September 11, 2001, we have been helping the Congress assess the Federal actions to improve the country's ability to respond to disasters, through both strategic evaluations, as well as targeted reviews of specific programs.

The question of how the accountability community should participate in these efforts has been on the Comptroller General's mind and agenda for the past month. He has had extensive discussions with his colleagues in the Federal Inspector General community, as well as with State and local auditors. He has also met with leaders of the House and Senate committees engaged in oversight activities. As a result of these consultations, GAO and the Federal IGs have developed complementary roles. As you will hear, the Inspectors General of the various departments plan to conduct detailed work on fraud, waste, and abuse in individual programs and Federal agencies. GAO plans to support the Congress through analysis and evaluation of the various issues related to how the Federal agencies involved in Katrina activities performed and coordinated with each other, and with State and local governments and the private sector.

I would like to briefly discuss some of the lessons our past work in areas under this committee's jurisdiction have provided and some of the work we are planning to do with Hurricane Katrina activities. Regarding healthcare issues, we reported about 18 months ago that no State was fully prepared to respond to the surge caused by large numbers of patients that would seek service during a public health emergency. Some of our future Katrina-related work will involve assessing whether various Federal, state, and local preparedness plans were adequate for dealing with the health consequences of this hurricane.

Regarding energy issues, one of my GAO colleagues testified last week about gasoline price trends and included comments on the likely effects of Hurricane Katrina. We plan to conduct further evaluations of determinants of gasoline prices, and the viability of the Strategic Petroleum Reserves to respond to disruptions like Hurricane Katrina. In the environmental area, we have reported on how environmental resources can be affected by both prevention of and recovery from natural disasters. We plan further work on how EPA and other governmental agencies are conducting water, soil, and air quality testing to determine when it is safe for residents to return to flooded areas.

Recognizing how important communications among emergency personnel are in any disaster, we have reported on challenges in developing interoperable communications for first responders. We will focus attention in coming months to determine the extent to which emergency units responding to Hurricane Katrina were able to communicate with each other when they needed to.

Mr. Chairman, we believe this work, when coupled with our work on all of the other emergency support functions contemplated under the National Response Plan, as well as the results of the work of the IGs and the rest of the accountability community, will enable us to comment on how well the National Response Plan was designed and implemented, and to offer suggestions for improving it.

Mr. Chairman, this concludes my statement. I will be pleased to answer your questions.

[The prepared statement of Norman J. Rabkin follows:]

PREPARED STATEMENT OF NORMAN J. RABKIN, MANAGING DIRECTOR, HOMELAND SECURITY AND JUSTICE ISSUES

Mr. Chairman and Members of the Subcommittee: I am pleased to be here today to discuss oversight of the nation's response to Hurricane Katrina. As Comptroller General Walker has stated, while the Inspectors General of the various departments plan to conduct detailed work on fraud, waste, and abuse in individual programs in federal agencies, GAO plans to provide support to Congress through analysis and evaluation of the various issues related to coordination among different federal agencies, and between these federal agencies and the state, local, and private sectors. The Comptroller General has also stated that GAO will be involved in reviewing the overall funding for and use of Katrina-related funding by various federal agencies. In addition, GAO has conducted several related reviews in the past—including reviews of federal actions following Hurricane Andrew in 1992—that will be helpful in evaluating the nation's response to Hurricane Katrina.

Before I begin my detailed comments, I want to say that, as you know, all of us at the U.S. Government Accountability Office, as all Americans, were saddened by the destruction that Hurricane Katrina caused throughout the Gulf Coast in Louisiana, Mississippi, and Alabama on August 29, 2005, and the ensuing days. One of the many roles of government is to provide for its citizens at a time when they are most in need. Because of Hurricane Katrina, it is clear that strengthening the nation's emergency response efforts is at the top of the national agenda. While this testimony is a dispassionate and analytical discussion of some of the challenges faced by the nation, we recognize the terrible costs of Hurricane Katrina in human terms and our hearts go out to the victims and their families.

Hurricane Katrina will have an enormous impact on people and the economy of the Gulf Coast as well as the United States. The hurricane affected over a half million people located within approximately 90,000 square miles spanning Louisiana, Mississippi, and Alabama, and has resulted in one of the largest natural disaster relief and recovery operations in United States history. Many of the sectors affected by the hurricane are within the jurisdiction of the Committee on Energy and Commerce. In terms of public health, standing water and high temperatures have created a breeding ground for disease, and public health advisories have warned about the spread of disease in the affected areas. The medical needs of evacuees will be an additional challenge; many evacuees are without medical records and at risk of losing their medical coverage. Hurricane Katrina also resulted in environmental challenges, such as water and sediment contamination from toxic materials released into the floodwaters. In addition, our nation's energy infrastructure was hard hit. The Department of Energy reported that 21 refineries in affected states were either shut down or operating at reduced capacity in the aftermath of the hurricane. Damaged transmission lines left as many as 2.3 million customers without electricity. The hurricane also disrupted commerce. According to the Department of Commerce, the ports damaged by Hurricane Katrina accounted for 4.5 percent of total exports of goods from the United States last year, and 5.4 percent of total U.S. imports. Finally, in terms of telecommunications, the Federal Communications Commission reported that Hurricane Katrina knocked out radio and television stations, more than 3 million customer phone lines, and more than a thousand cell phone sites.

In my statement today I will highlight some of GAO's previous work on challenges faced by government preparedness, response, and recovery programs, many of which are directly related to this committee's jurisdiction. For future work, GAO will continue to provide this committee and Congress with independent analysis and evaluations, and coordinate our efforts with the accountability community to ensure appropriate oversight of federal programs and spending. As provided for in our congressional protocols, we plan to conduct Katrina-related work under the Comptroller General's statutory authority since it is an issue of interest to the entire Congress and numerous committees in both houses.

My statement is based upon our extensive work spanning a wide variety of topics over a number of years. Much of this work was done relatively recently in the aftermath of the terrorist attacks of September 11, 2001, and the subsequent creation of the Department of Homeland Security in March 2003. In all, we have published over 120 reports on disaster preparedness and response, and other issues raised by Katrina, which are useful in moving forward in addressing problems encountered

with the nation's response to the hurricane. At the end of this statement is a comprehensive list of our related products.

SUMMARY

Our past work has noted needed improvements in government programs related to preparing for, responding to, and recovering from natural disasters such as Hurricane Katrina. Many of these challenges relate to programs under the jurisdiction of the Energy and Commerce Committee. For example, health care providers have not always been adequately prepared for catastrophic events. The health care community has been addressing some of these challenges, such as those involving coordination efforts and communications systems, more readily than others, such as infrastructure and workforce issues, which are more resource-intensive. Our work on energy issues has described some of the consequences of hurricanes on petroleum markets—such as rapid gasoline price increases. Our environmental work has indicated that the loss of wetlands has increased the severity of damage from hurricanes, and that cleanup of contaminated sites takes a tremendous amount of coordination and funding. Finally, our work on telecommunications issues has found that first responders are challenged by a lack of interoperable emergency communications. In these areas, among others, we have made a number of recommendations, many of which are still pending completion.

PAST GAO WORK HAS HIGHLIGHTED NEEDED IMPROVEMENTS IN MANY PROGRAMS RELATED TO PREPAREDNESS, RESPONSE, AND RECOVERY

There are a host of challenges to government programs related to Hurricane Katrina and other natural disasters in terms of preparedness, response, and recovery. Our work on preparedness—programs to prevent disasters or prepare to respond in advance—has identified needed improvements in a number of areas, including balancing efforts to prepare for terrorism with efforts related to natural disasters and all hazards; planning preparedness efforts and setting goals and measures; providing training, exercises, evaluations, and lessons learned to first responders; providing flood control and protection; improving public health preparedness; and providing federal grants to state and local governments. Similarly, our work on response to disasters has identified a number of problems. These relate to federal, state and local roles in coordinating the response; the role of the military, to include the National Guard; and the medical and public health response capabilities. Furthermore, our work on recovery—programs to help communities and victims get back to normal—has also identified challenges related to federal assistance to recovery areas, private nongovernment assistance efforts, and lessons from overseas recovery programs. In many of these areas we have made a number of recommendations, some of which have still not been implemented. Below are some examples of our previous and planned work related to the jurisdiction of this committee regarding preparedness, response, and recovery issues related to health care, energy, the environment, and telecommunications.

Health Care Issues

Hurricane Katrina raised a number of health care concerns, and the preparedness of health care providers, their response capabilities, and health care agency and hospital capacity are all important in a major disaster. The *National Strategy for Homeland Security* had a specific initiative to prepare health care providers for catastrophic events, such as major terrorist attacks.[1] However, in April 2003, we reported that many local areas and their supporting agencies may not have been adequately prepared to respond to such an event.[2] Specifically, while many state and local officials reported varying levels of preparedness to respond to a bioterrorist attack, they reported that challenges existed because of deficiencies in capacity, communication, and coordination elements essential to preparedness and response. These included workforce shortages, inadequacies in disease surveillance and laboratory systems, and a lack of regional coordination and compatible communications systems. Some of these challenges, such as those involving coordination efforts and communications systems, were being addressed more readily, whereas others, such as infrastructure and workforce issues, were more resource-intensive. Generally, we found that cities with more experience in dealing with public health emergencies were generally better prepared for a major disaster (such as a bioterrorist attack) than other cities, although challenges remain in every city. Almost a year later, in

[1] See the *National Strategy for Homeland Security,* the White House, July 2002.

[2] See GAO, Bioterrorism: Preparedness Varied Across State and Local Jurisdictions, GAO-03-373 (Washingon, D.C.: Apr. 7, 2003).

February 2004, we reported that although states had further developed many important aspects of public health preparedness, no state was fully prepared to respond to a major public health threat.[3] Specifically, states had improved their disease surveillance systems, laboratory capacity, communications capacity, and workforce needed to respond to public health threats, but gaps in each remained. Moreover, regional planning among states was lacking, and many states lacked surge capacity—the capacity to evaluate, diagnose, and treat the large numbers of patients that would present during a public health emergency.

In terms of health care agencies and hospital capacities, we also found major deficiencies. In May 2003 we testified that while the efforts of public health agencies and health care organizations to increase their preparedness for major public health threats have increased, significant challenges remained.[4] Specifically, we found most emergency departments across the country lacked the capacity to respond to large-scale infectious disease outbreaks. For example, although most hospitals across the country reported participating in basic planning activities for large-scale infectious disease outbreaks, few had acquired the medical equipment resources—such as ventilators—that would be required in such an event. Further, because most emergency departments already routinely experienced some degree of overcrowding, they may not be able to handle the sudden influx of patients that would occur during a large-scale infectious disease outbreak. Regarding hospital capacity, in August 2003 we reported that the medical equipment available for response to certain incidents (e.g., as a biological terrorist incident) varied greatly among hospitals.[5] Additionally, many hospitals reported that they did not have the capacity to respond to the large increase in the number of patients that would be likely to result from incidents with mass casualties.

In our April 2003 report on preparedness, we made a number of recommendations to help state and local jurisdictions better prepare for a bioterrorist attack and to develop a mechanism for sharing solutions between jurisdictions. In response to this report, the Departments of Health and Human Services and Homeland Security concurred with GAO's recommendations.

- We plan future work related to Hurricane Katrina regarding public health and health services, including mental health services issues. Specifically, we plan to conduct evaluations of evacuation plans for inpatient and long-term care health facilities; federal, state, and local preparedness plans for dealing with the health consequences of natural and man-made disasters; and provision of mental health services for evacuees and first responders.

Energy Issues

The wide-ranging effects of Hurricane Katrina on gasoline prices nationwide are a stark reminder of the interconnectedness of our petroleum markets and reveal the vulnerability of these markets to disruptions, natural or otherwise.[6] These markets have become stressed over time, in part because of a proliferation of special gasoline blends that have raised costs and affected operations at refineries, pipelines, and storage terminals.[7] As we noted in our recent testimony on energy markets, Hurricane Katrina did tremendous damage to, among other things, electricity transmission lines, and oil producing, refining, and pipeline facilities.[8] Because the Gulf Coast refining region is a net exporter of petroleum products to all other regions of the country, retail gasoline prices in many parts of the nation rose dramatically. A variety of factors determine how gasoline prices vary across different locations and over time. For example, gasoline prices may be affected by unexpected refinery outages or accidents that significantly disrupt the delivery of gasoline supply. Future gasoline prices will reflect the world supply and demand balance and will continue to be an important factor affecting the American consumer for the foreseeable future. The impact of gasoline prices is felt in virtually every sector of the U.S. econ-

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[3] See GAO, *Public Health Preparedness: Response Capacity Improving, but Much Remains to Be Accomplished,* GAO-04-458T, (Washington, D.C.: February 12, 2004).

[4] See GAO, *SARS Outbreak: Improvements to Public Health Capacity Are Needed for Responding to Bioterrorism and Emerging Infectious Diseases,* GAO-03-769T (Washington, D.C.: May 7, 2003).

[5] See GAO, *Hospital Preparedness: Most Urban Hospitals Have Emergency Plans but Lack Certain Capacities for Bioterrorism Response,* GAO-03-924 (Washington, D.C.: Aug. 6, 2003).

[6] For a primer on gasoline prices, see GAO, *Motor Fuels: Understanding the Factors That Influence the Retail Price of Gasoline,* GAO-05-525SP, Washington, D.C.: May 2, 2005).

[7] See GAO, *Gasoline Markets: Special Gasoline Blends Reduce Emissions and Improve Air Quality, but Complicate Supply and Contribute to Higher Prices,* GAO-05-421 (Washington, D.C.: June 17, 2005).

[8] See GAO, *Energy Markets: Gasoline Price Trends,* GAO-05-1047T (Washington, D.C.: Sept. 21, 2005).

omy. Some of our more significant open recommendations are that (1) the Environmental Protection Agency (EPA), with the Department of Energy (DOE) and others, develop a plan to balance the environmental benefits of using special fuels with the impacts these fuels have on the gasoline supply infrastructure, and (2) if warranted, EPA work with other agencies to identify what statutory or other changes are required to implement this plan. EPA declined to comment on our recommendations and did not signify agreement or disagreement with them.

- We plan future work on energy issues in order to better understand the vulnerability of the nation's energy infrastructure to natural or manmade disasters. Specifically, we plan to conduct evaluations of determinants of gasoline prices in particular, and the petroleum industry more generally. Included will be evaluations of world oil reserves; security of maritime facilities for handling and transporting petroleum, natural gas, and petroleum products; viability of the Strategic Petroleum Reserve to respond to disruptions such as Hurricane Katrina; and impacts of the potential disruption of Venezuelan oil imports.

Environmental Issues

Hurricane Katrina resulted in significant impacts on Gulf Coast environmental resources. The condition of environmental resources has an important role in both the prevention and of recovery from natural disasters. In the area of prevention, the U.S. Army Corps of Engineers has responsibility for constructing hurricane prevention and flood control projects throughout the country. The Lake Pontchartrain and Vicinity Hurricane Protection Project was one such project that was authorized by Congress in 1965 to provide hurricane protection to New Orleans from a fast-moving Category 3 hurricane.[9] Similarly, wetlands, once regarded as unimportant areas to be filled or drained for agricultural or development activities, are now recognized for the variety of important functions that they perform, including providing flood control by slowing down and absorbing excess water during storms; maintaining water quality by filtering out pollutants before they enter streams, lakes, and oceans; and protecting coastal and upland areas from erosion.[10] Moreover, it has been suggested that wetlands act as a speed bump, slowing down storms almost as dry land does. The Fish and Wildlife Service reports that more than half of the 221 million acres of wetlands that existed during colonial times in what is now the contiguous United States have been lost. There is no reliable set of wetland acreage estimates to be used to evaluate the progress made in achieving the goal of "no net loss" of the remaining wetlands. In the area of recovery, Hurricane Katrina poses an enormous challenge in terms of the cleanup of hazardous materials in the area. Industrial discharges, sewage, gas and oil from gas stations, household hazardous materials, pesticides, and chemicals contaminated the floodwaters. The long-term effects of these hazardous materials, the level of effort and coordination needed and the cost of decontamination and cleanup will take some time to determine.

In situations where such contamination exits, EPA serves as the lead agency for the cleanup of hazardous materials, including oil and gasoline. EPA emergency response personnel are working in partnership with FEMA and state and local agencies to help assess the damage, test health and environmental conditions, and coordinate cleanup from Hurricane Katrina. They are conducting water, air, and sediment testing, assessing drinking water and wastewater facilities, examining superfund and other hazardous waste sites affected by the storms, issuing environmental waivers, and providing public advisories regarding drinking water and the potential for hazardous debris in homes and buildings.

- We plan future work on environmental issues, such as evaluations of how EPA and other federal, state, and local agencies conduct water, soil, and air quality testing to determine when it will be safe for residents to return to New Orleans. We also plan to evaluate efforts to treat hazardous materials during the cleanup efforts and restore drinking water and wastewater facilities. We also plan to review the Army Corps of Engineers efforts to repair the integrity of the hurricane protection structures in the New Orleans area and assess issues relating to wetland losses.

Telecommunications Issues

Hurricane Katrina knocked out a wide variety of communications infrastructure and communication among emergency personnel is important in any disaster. The *National Strategy for Homeland Security* called for seamless communications among

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[9] See GAO, *Army Corps of Engineers: Lake Ponchartrain and Vicinity Hurricane Protection Project,* GAO-05-1050T, (Washington, D.C.: Sept. 28, 2005).

[10] See GAO, *Wetlands Overview: Problems With Acreage Data Persist,* GAO/RECED-98-150, (Washington, D.C.: July 1, 1998).

all first responders and public health entities. However, in our August and November 2003 reports, we noted that insufficient collaboration among federal, state, and local governments had created a challenge for sharing public health information and developing interoperable communications for first responders.[11] For example, states and cities had implemented many initiatives to improve information sharing, but these initiatives had not been well coordinated and risked creating partnerships that limited access to information and created duplicative efforts. Another challenge involved the lack of effective, collaborative, interdisciplinary, and intergovernmental planning for interoperable communications. For instance, the federal and state governments lacked a coordinated grant review process to ensure that funds were used for communications projects that complemented one another and added to overall statewide and national interoperability capacity.[12] Moreover, we testified in April 2004 that the Wireless Public Safety Interoperable Communications Program, or SAFECOM, had made very limited progress in achieving communications interoperability among all entities at all levels of government and had not achieved the level of collaboration necessary.[13] Finally, in our October 2003 report on public health preparedness, we reported that challenges existed in ensuring communication among responders and with the public.[14] For example, during the anthrax incidents of 2001, local officials identified communication among responders and with the public as a challenge, both in terms of having the necessary communication channels and in terms of making the necessary information available for distribution.

We made a number of recommendations that DHS, in conjunction with other federal agencies, complete a database on communication frequencies, determine the status of wireless public safety communications nationwide, tie grant funding to statewide interoperability plans, and review the interoperability functions of SAFECOM. DHS has agreed to take some, but not all, of the corrective actions we recommended.

CONCLUDING OBSERVATIONS

We have issued a number of reports relevant to evaluating Hurricane Katrina. In addition, the accountability community—including the IGs and GAO—has an active future agenda for evaluating the nation's response to the hurricane. Congress has recently passed legislation that provided $15 million for the DHS IG to audit and investigate Hurricane Katrina response and recovery activities.[15] The DHS IG has developed a plan for oversight of the funds being spent directly by DHS components and the IGs of the 12 other departments and agencies that account for almost all of the remainder of the funds appropriated thus far. The primary objective of the IG plan is to ensure accountability, primarily through ongoing audit and investigative efforts designed to identify and address waste, fraud, and abuse. Each IG will be issuing an individual report to ensure that the affected people, organizations, and governments receive the full benefit of the funds being spent and to be spent on disaster response and recovery programs. The DHS IG will coordinate the work of the respective IGs through regular meetings, and the overall account of funds will be coordinated with us through regular meetings with our senior officials.

As the IGs focus on fraud, waste, and abuse, GAO can provide Congress with more strategic evaluations on such issues as coordination among various agencies and state and local government and the private sector. Some of our past strategic work included reports in the wake of Hurricane Andrew in 1992 [16] and the terrorist attacks of September 11, 2001.[17] Other strategic-level reports have covered such top-

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[11] See GAO, *Homeland Security: Efforts to Improve Information Sharing Need to Be Strengthened,* GAO-03-760, (Washington, D.C.: Aug. 27, 2003); and *Homeland Security: Challenges in Achieving Interoperable Communications for First Responders,* GAO-04-231T (Washington, D.C.: Nov. 6, 2003).

[12] See GAO, *Homeland Security Federal leadership and Intergovernmental Cooperation Required to Achieve First Responder Interoperable Communications,* GAO-04-740 (Washington, D.C.: July 20, 2004).

[13] See GAO, *Project SAFECOM: Key Cross-Agency Emergency Communications Effort Requires Stronger Collaboration,* GAO-04-494 (Washington, D.C.: Apr.16, 2004).

[14] See GAO, *Bioterrorism: Public Health Response to Anthrax Incidents of 2001,* GAO-04-152 (Washington, D.C.: Oct. 15, 2003).

[15] Second Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising from the Consequences of Hurricane Katrina, 2005, Pub. L. 109-62, 119 Stat. 190, 191 (2005).

[16] See GAO, *Disaster Management: Improving the Nation's Response to Catastrophic Disasters,* GAO/RCED-93-186 (Washington, D.C.: July 23, 1993).

[17] See GAO, *Combating Terrorism: Selected Challenges and Related Recommendations,* GAO-01-822 (Washington, D.C.: Sept. 20, 2001).

ics as barriers to interagency coordination,[18] issues related to continuity of operations planning for essential government services,[19] and DHS's efforts to enhance first responders' all-hazards capabilities.[20] Many of our past reports, which provide a firm foundation for doing Katrina-related work, contain recommendations to improve top-level coordination. While several changes have occurred in terms of the government's structure and process for emergency preparedness and response, the extent to which many of our earlier recommendations have been fully implemented remains unclear.

In closing, we will continue to work with the accountability community and have already reached out to the relevant congressional committees, federal IGs, and state and local auditors in the affected states to coordinate our efforts, avoid unnecessary duplication, and most effectively utilize our resources. Comptroller General Walker has been personally and extensively involved in this effort and he plans to continue to be heavily involved.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions that you or other members of the subcommittee may have at this time.

Mr. WHITFIELD. Thank you very much, Mr. Rabkin. At this time, we will recognize Mr. Friedman for his opening statement.

TESTIMONY OF GREGORY H. FRIEDMAN

Mr. FRIEDMAN. Good morning, Mr. Chairman and members of the subcommittee. As the Department of Energy's Inspector General, and as Vice Chair of the President's Council on Integrity and Efficiency, I am pleased to be here today at your request to discuss Inspector General plans to guard against waste, fraud, and abuse in the hurricane relief and recovery efforts.

The impact that Katrina and Rita have had on the citizens and businesses in the Gulf States and other communities has been nothing short of catastrophic. The goal of the Inspector General community is to aid in the efforts to ensure that funds appropriated for hurricane relief are spent for their intended purpose: that is, to assist the affected citizens and businesses in recovering from his tragedy.

Several months ago, in my role as Vice Chair of the President's Council on Integrity and Efficiency, I established a special working group to address homeland security issues. I asked Rick Skinner, who is sitting to my left, the Inspector General of the Department of Homeland Security, to head the group. On August 29, 2005, a major challenge for this working group became evident with the devastation associated with Hurricane Katrina. The IG community mobilized, and is providing on-the-ground, proactive support in overseeing the billions of dollars appropriated for relief. The working group has implemented a comprehensive, community-wide program, which identifies specific risks and control weaknesses of various programs and operations. In carrying out the plan, the IG community is reviewing the award and administration of contracts and grants, operating an OIG hurricane relief and reconstruction hotline, and aggressively addressing allegations of wrongdoing.

In addition to the working group, within days of Katrina, many in the IG community volunteered to assist with relief activities. Further, PCIE members, in efforts related to the specific missions

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[18] See GAO, *Managing for Results: Barriers to Interagency Coordination,* GAO/GGD-00-106 (Washington, D.C.: Mar. 29, 2000).

[19] See GAO, *Continuity of Operations: Improved Planning Needed to Ensure Delivery of Essential Government Services* GAO 04-160 (Washington, D.C.: Feb. 27, 2004).

[20] See GAO, *Homeland Security: DHS's Efforts to Enhance First Responders' All-Hazards Capabilities Continue to Evolve,* GAO-05-652 (Washington, D.C.: July 11, 2005).

of their own agencies, are aggressively working audit and investigative issues arising from Katrina, and now, from Hurricane Rita. The massive Federal hurricane aid package may attract those who are inclined to abuse the system and defraud the U.S. taxpayers.

Based on my experience, Mr. Chairman, prevention is the key to minimizing fraud and misuse. Thus, it is vitally important that agency management establish effective controls and procedures for expenditures relating to hurricane relief. We are working with each agency to identify the extra safeguards which are needed to deal effectively with the increased risk environment, and then, we will be determining if they have achieved any success.

These challenges primarily reside with agency senior management, including those responsible for agency budget, planning, procurement, and program management functions. The Inspectors General play a critical role in the process of identifying vulnerabilities in government programs and operations, recommending needed management improvements, and bringing to justice those attempting to defraud the Federal Government. In working toward these goals, specifically as they relate to hurricane relief, we are collaborating with auditors and law enforcement agencies at all levels of government to achieve common objectives.

Regarding my role and responsibilities within the Department of Energy, the Department has a significant role to play in disaster relief relating to the restoration of damaged energy systems as part of the National Response Plan which was alluded to earlier, Emergency Support Function 12, which is the "Energy Annex." My office has implemented an audit plan to review this effort. Consistent with the Energy Annex, we are in the process of examining the Department of Energy's actions related to collecting, assessing, and providing information on energy supply, demand, and prices, and identifying supporting resources needed to restore energy systems.

In addition, the Department has begun to make oil available from the Strategic Petroleum Reserve, which contains approximately 695 million barrels of oil, and serves as the Nation's first line of defense against an interruption of petroleum supplies. We have initiated an audit of the Strategic Petroleum Reserve sales and exchange program which was designed, in the current environment, to ensure that refineries have the petroleum they need to keep gasoline, diesel fuel and other petroleum products flowing to American consumers. Other audits, inspections, and investigative efforts will be undertaken as needed.

In conclusion, let me emphasize that the Federal Inspector General community is committed to doing its utmost to ensure that the national interests and those of Katrina's victims are well served.

Mr. Chairman and members of the subcommittee, this concludes my statement, and I would be pleased to answer any questions that you might have.

[The prepared statement of Gregory H. Friedman follows:]

PREPARED STATEMENT OF GREGORY H. FRIEDMAN, INSPECTOR GENERAL, U.S. DEPARTMENT OF ENERGY

Good morning Mr. Chairman and members of the Subcommittee. As the Department of Energy's Inspector General and as Vice Chair of the President's Council on Integrity and Efficiency, I am pleased to be here today at your request to discuss Inspector General plans to guard against waste, fraud and abuse in the post-

Katrina relief and recovery efforts. The impact Katrina has had on the citizens and businesses in the Gulf States and in other communities has been nothing short of catastrophic. The goal of the Inspector General community is to aid in the effort to ensure that funds appropriated for Hurricane Katrina relief efforts are spent properly and effectively. It is imperative that the $63 billion appropriated for the immediate relief effort, as well as all future special and other direct funding, is used for its intended purpose; that is, to assist the affected citizens and businesses in recovering from this tragedy.

Several months ago, in my role as Vice Chair of the President's Council on Integrity and Efficiency, I established a special working group to address homeland security audit and investigative issues. This working group's efforts impact programs and operations at nearly every Federal agency. I asked Rick Skinner, the Inspector General of the Department of Homeland Security, to head the group. On August 29, 2005, a major challenge for this working group became evident with the devastation associated with Hurricane Katrina. Under Rick's leadership, the IG community has mobilized, and is providing on-the-ground, proactive support in overseeing the billions of dollars appropriated for Katrina relief. The working group has implemented a comprehensive community-wide plan which identifies specific risks and control weaknesses of various programs and operations. In carrying out the plan, the IG community is reviewing the award and administration of contracts and grants; operating a Katrina OIG Hotline; and, aggressively addressing allegations of wrongdoing.

In addition to the working group, within days of Hurricane Katrina, many IG special agents, auditors, and inspectors volunteered to assist with relief activities. Further, PCIE members, in efforts related to the specific missions of their own agencies, are aggressively working audit and investigative issues arising from Katrina.

As has been widely recognized, the massive Federal Katrina aid package may attract those inclined to abuse the system and defraud the U.S. taxpayers. Based on my experience, prevention is the key to minimizing fraud and misuse. Thus, it is important that agency management establish effective controls and procedures for expenditures relating to hurricane relief. We are working with each agency to foster a culture of accountability and responsibility. These challenges primarily reside with agency senior management, including those responsible for agency budget, planning, procurement and program management functions.

The Inspectors General play a critical role in the process of identifying vulnerabilities in government programs and operations; recommending needed management improvements; and, bringing to justice those attempting to defraud the Federal Government. In working toward these goals, specifically as they relate to Katrina, we are collaborating with auditors and law enforcement agencies at all levels of government to achieve common objectives.

Regarding the Department of Energy, the Department has a significant role to play in disaster relief relating to the restoration of damaged energy systems as a part of the National Response Plan, Emergency Support Function 12. My office has implemented an audit plan to review this effort. Consistent with Emergency Support Function 12, we are in the process of examining the Department's actions related to:

- Collecting, assessing, and providing information on energy supply, demand and prices; and,
- Identifying supporting resources needed to restore energy systems.

In addition, the Department has announced actions to make oil available from the Strategic Petroleum Reserve, which contains approximately 695 million barrels of oil and serves as the Nation's first line of defense against an interruption of petroleum supplies. We have initiated an audit of the Strategic Petroleum Reserve sales and exchange program which was designed, in the current environment, to ensure that refineries have the petroleum they need to keep gasoline and diesel fuel flowing to American consumers. Other audits, inspections and investigative efforts will be undertaken as needed.

In my role as Vice Chair of the President's Council on Integrity and Efficiency, let me emphasize that the Federal Inspector General community is committed to doing its utmost to ensure that the national interests and those of Katrina's victims are well-served.

Mr. Chairman and members of the Subcommittee, this concludes my statement. I will be pleased to answer any questions.

Mr. WHITFIELD. And thank you, Mr. Friedman. At this time, we will recognize Mr. Skinner for his opening statement.

TESTIMONY OF RICHARD L. SKINNER

Mr. SKINNER. Mr. Chairman, thank you for the opportunity to be here today.

I would like to summarize briefly a couple points that I made in my prepared statement, which I have submitted for the record, and that is the OIG community's oversight initiatives and my office's oversight efforts. First, concerning the OIG community oversight. Through the PCIE Homeland Security Roundtable, which I chair, the inspector general community has been working together to coordinate our respective oversight efforts from the beginning. Collectively, we have prepared plans to provide oversight of 99 percent of the $63 billion appropriated to date for Katrina relief efforts.

As with all Presidentially declared disasters, FEMA coordinates the Federal Government's relief efforts. To this end, they administer some of the funds directly, but the bulk of the funds are distributed to other Federal agencies through mission assignments, or through State agencies through grants. As of September 21, FEMA has made grants to Katrina-affected states totaling about $4 billion, and mission assignments totaling about $7 billion, over $6 billion of which went to the Department of Defense.

The overriding objectives of the OIG plans are to ensure accountability, promote efficiencies, and to detect and prevent fraud, waste, and abuse. Insofar as the bulk of the funds obligated to date have been or will be spent for contractor support, the OIG's current plans will naturally focus on contract management. This includes performing internal control assessments of procurement systems, monitoring contract transactions, and reviewing the award and management of all major contracts, particularly no-bid or limited competition contracts.

In this regard, the OIGs will be looking at the evidence to support the no-bid decision, the criteria used to select one contractor over another, the reasonableness of the costs associated with the service or product to be delivered, the qualifications of the contractors selected, and the support for the payments made to the contractor. Also, using data mining techniques, the OIGs will be reviewing the use of the expanded micro-purchase authority on a real-time basis.

Notwithstanding our best efforts to prevent problems through an aggressive oversight program, history has shown that there are some who will try to beat the system through fraudulent means. The OIGs will be working closely with the newly established Hurricane Fraud Taskforce, which is chaired by the Assistant Attorney General of the Criminal Division. The Taskforce is designed to investigate and prosecute disaster-related crimes, such as contractor fraud, government benefit fraud, and insurance fraud. It will track referrals of potential cases and complaints, coordinate with law enforcement agencies to initiate investigations, match referrals with the appropriate U.S. Attorney's offices, and ensure timely and effective prosecution of cases. In this regard, an OIG Hurricane Relief Hotline has been established and will be widely publicized to allow for the effective screening and followup of allegations of fraud, waste, and abuse. To date, the OIGs have committed a total of over 300 auditors, investigators, and inspectors to this combined effort.

Now, with respect to my office's oversight initiatives. Based on my experiences as a Deputy Inspector General at FEMA, I recognize that a disaster of this magnitude will require a long-term commitment of resources. Accordingly, to ensure that we remain focused, not just on short-term response initiatives or operations, but also on long-term recovery initiatives, which could require our involvement for the next 3, 5, or even 10 years to come, I have created an Office of Katrina Oversight within the OIG, to focus solely on Hurricane Katrina relief operations. I just recently hired an Assistant Inspector General with very extensive FEMA and OIG experience to manage this effort on a full-time basis. My office has already assigned 60 auditors, investigators, and inspectors, and will be hiring over 30 more over the next 3 months. We are prepared to add resources, providing funding is made available, as the need arises. We have had personnel monitoring FEMA headquarters' operations since day one, September 1, and currently have auditors assigned to the joint field offices in Baton Rouge, Louisiana, Montgomery Alabama, and Jackson, Mississippi.

In addition to the oversight activities that I have already discussed, we will provide oversight of FEMA's individual assistance program and, in coordination with HUD's OIG, provide oversight of FEMA's temporary housing program; monitor and, as necessary, audit public assistance and mitigation projects approved by the State and FEMA; continue to monitor FEMA's assignments of responsibilities under mission assignments; and coordinate our work with the work of the other OIGs and the GAO, to ensure that there are no major gaps in oversight and conversely, to mitigate the potential for duplication of effort.

And finally, we will be working very closely with our counterparts at the State and local level, to leverage against our efforts. Already, for example, Louisiana's Legislative Auditor and Inspector General, have dedicated 36 auditors to review transactions flowing through the State's Office of Emergency Preparedness. We intend to do this in Mississippi, Alabama and Texas as well. Finally, we have initiated a review that will focus on FEMA's preparedness for and response to the devastation caused by Hurricane Katrina. This review will be done in close coordination with GAO, of course.

In conclusion, I would like to say that, collectively, the OIG community is uniquely qualified and positioned to provide the most timely and effective oversight of Hurricane Katrina operations. You can be sure that the OIG community stands united in its efforts to ensure that taxpayers' dollars are spent wisely, today, and in the years to come, as the communities and victims in the Gulf region begin to get back to normal.

Mr. Chairman, that concludes my statement. I will be happy to answer any questions.

[The prepared statement of Richard L. Skinner follows:]

PREPARED STATEMENT OF RICHARD L. SKINNER, INSPECTOR GENERAL, U.S. DEPARTMENT OF HOMELAND SECURITY

Good morning Mr. Chairman and Members of the Subcommittee. Thank you for the opportunity to be here today to discuss the plans of the Inspectors General to guard against waste, fraud, and abuse in post-Katrina relief and recovery.

OVERVIEW OF OIG HURRICANE KATRINA OVERSIGHT

On August 29, 2005, Hurricane Katrina hit the Gulf Coast states of Louisiana, Mississippi, Alabama, and Florida with Category IV winds and torrential rains. By September 9, 2005, Congress had passed legislation that provided over $63 billion to the Department of Homeland Security (DHS) for disaster relief, including $15 million for the DHS Office of Inspector General (OIG) to oversee the management and expenditure of those funds. Although the Federal Emergency Management Agency (FEMA) is responsible for coordinating response and recovery efforts, it will take the combined efforts of many federal, state, and local government entities to restore the Gulf Coast. Therefore, the oversight task encompasses more the just the DHS OIG. The circumstances created by Hurricane Katrina provided an unprecedented opportunity for fraud and mismanagement, and some estimate that the cost to recover from the storm and rebuild the affected areas could reach $200 billion and more.

In addition to its own activities related to Hurricane Katrina, FEMA tasked other federal departments and agencies through Mission Assignments. As of September 13, 2005, FEMA had made mission assignments totaling just over $7 billion, over $6 billion of which went to the Department of Defense (DOD) and the Army Corps of Engineers. Departments use mission assignment funds to award contracts or provide direct support for response efforts. In addition, some departments and agencies, including DOD, received direct appropriations for Hurricane Katrina activities. We expect more disaster relief funds and direct appropriations for Katrina relief in the weeks and months ahead.

To answer the call for oversight in the face of this unprecedented disaster, my office and other Inspectors General have been working together to coordinate our efforts from the beginning. We are collectively focused on our departments' and agencies' response and recovery efforts and the related disaster assistance spending. The overriding objective of the OIGs' plan is to ensure accountability and preventing problems before they occur. Our plans focus heavily on prevention, including reviewing internal controls; monitoring and advising department officials on contracts, grants and purchase transactions before they are approved; and meeting with applicants, contractors and grantees to advise them of the requirements and assess their capability to account for the funds. The plans also encompass an aggressive and ongoing audit and investigative effort designed to ensure that disaster relief funds are being spent wisely and to identify waste, fraud, and abuse as early as possible.

The OIGs are currently coordinating through regular meetings of the President's Council on Integrity and Efficiency (PCIE) Homeland Security Round Table, and the overall effort will be coordinated with the Government Accountability Office (GAO) through regular meetings with GAO senior officials.

Plan Coordination

DHS OIG has developed a plan for oversight of the funds to be spent directly by DHS components. The OIGs of the departments and agencies who account for the vast majority of the initial FEMA mission assignment allocations have also developed plans for the oversight of their respective agency's Katrina spending. To date, the OIGs, collectively, have committed a total of over 300 auditors, investigators, and inspectors to this combined effort. For example, DHS OIG has already assigned 60 auditors, investigators, and inspectors, and will be hiring over 30 more over the next three months. Over the next several months, the total DHS OIG staff assigned to this effort will double as we aggressively hire additional auditors under limited term appointments.

Many of DHS OIG's personnel are already on the ground at FEMA Headquarters and at the Joint Field Offices (JFO) in Louisiana, Mississippi, and Alabama. In addition, we will be leveraging the OIGs' efforts with those of the state and local audit organizations in the three states. Already, Louisiana's Legislative Auditor and Inspector General have dedicated 36 auditors to review transactions flowing through the state's Office of Emergency Preparedness.

The other OIGs and the GAO also plan to have personnel on site as necessary to conduct their oversight and investigative activities and these efforts will be closely coordinated. For example, the DOD OIG, the Army Audit Agency, the Naval Audit Service, the Air Force Audit Agency, the Defense Contract Audit Agency, and the defense criminal investigative organizations will employ a cadre of well over 100 auditors, investigators, and inspectors who will provide immediate oversight of DOD contracts, grants, and operations related to Hurricane Katrina relief efforts.

I do not believe that additional authorities are needed to allow appropriate coordination of these efforts. However, it is clear that additional resources will be needed and I will be preparing appropriate requests for supplemental appropriations.

DHS OIG Activities

Within days of Katrina's landfall, the DHS OIG had a presence onsite at FEMA Headquarters to monitor operations. We quickly increased this staffing level so that we could have a larger presence and monitor operations at FEMA's Emergency Operations Center on a near-continuous basis. Through this presence, we stay current on all disaster relief operations and provide on-the-spot advice on internal controls and precedent setting decisions. Auditors also closely monitor FEMA's assignment of responsibilities and funding to other federal organizations under mission assignments. This effort will be coordinated with the respective agency OIG reviews and will continue through project execution to identify questionable activities early, and thus decrease the risk of misspending while ensuring compliance with federal laws and regulations.

During the past week, we established offices with auditors and investigators at the Joint Field Offices (JFO) in Baton Rouge, Louisiana; Montgomery, Alabama; and Jackson, Mississippi. The auditors will provide advice and perform proactive procedures related to the JFOs' internal activities to ensure the appropriate control and use of FEMA funds. The emphasis will be to provide a visible OIG presence to prevent misspending on questionable contracts and grants. In particular, the auditors will perform the following functions:

- Oversee contract activities as requirements and awards are developed.
- Participate in FEMA applicant briefings and kickoff meetings.
- Provide advice on applicants' accounting systems and sub-grant administrative policies, procedures, and practices.
- Oversee FEMA property management to ensure that property and equipment acquired for use at the JFOs are safeguarded against loss and pilferage.
- Perform audits, as necessary, of contracts and grants awarded by FEMA.

The investigators will coordinate with the respective federal, state, and local law enforcement agencies and prosecutors as part of their "fraud awareness" initiatives. They will also handle allegations received through a single, OIG-wide, Katrina "Hotline."

Further, I have just selected an Assistant Inspector General for Katrina Oversight with extensive FEMA and OIG experience to manage the overall effort on a full time basis.

Auditing Contracting and Procurement Activities

We plan to maintain proactive and aggressive audit oversight of contracting activities resulting from Hurricane Katrina. Our objectives will be to determine the extent: (1) federal acquisition regulations are being adhered to, (2) effective contracting practices are being used on these procurements, and (3) the expenditures are necessary and reasonable. Auditors will review the award and administration of all major contracts, including those made in the first two weeks, and each department's implementation of expanded micro purchase authority to ensure that appropriate federal acquisition regulations and guidelines are being adhered to, and expenditures are necessary and reasonable. Data mining techniques will provide continuous oversight of purchase card transactions to identify spending anomalies for further review.

Monitoring Financial Controls

Financial statement auditors will provide oversight of their agency's control environment, financial and operational processes, and the effectiveness of internal controls to identify financial reporting issues early. Under this effort, where material, auditors will identify, document, and test key internal controls for operating effectiveness.

Monitoring Public Assistance Projects and other Grants

DHS OIG auditors will closely monitor FEMA's Individuals and Households Program (IHP) and Temporary Housing Program, as well as FEMA's approval of Public Assistance projects. Reviews will start early in project execution and remain ongoing to identify questionable activities early, prevent misspending, and ensure compliance with federal laws and FEMA regulations. We will be leveraging our resources by working in partnership with state and local audit organizations. Other OIGs overseeing grant operations will follow similar procedures. For example, DOJ OIG will be reviewing $5 million in grants to be awarded by the Office of Justice programs.

Review of FEMA's Disaster Management Activities in Response to Katrina

DHS OIG has initiated an assessment of FEMA's performance as it conducted its disaster management responsibilities in response to Hurricane Katrina. It will en-

compass three of the four major phases of disaster management—Preparedness, Response, and Recovery (with more focus and emphasis being placed upon Preparedness and Response)—as well as some Emergency Support Functions within the National Response Plan for which FEMA is the primary agency: Emergency Management; Mass Care, Housing, and Human Services; Urban Search and Rescue; Long-term Community Recovery and Mitigation; and External Affairs. We will coordinate our review with GAO to avoid duplication to the extent possible.

Monitoring the "Katrina" HOTLINE

While each of the OIGs has its own HOTLINE for receiving allegations of waste, fraud, and abuse, a single Katrina HOTLINE will be established and widely publicized to avoid confusion and allow for effective screening and follow-up.

Reporting OIG Progress and Results

Each OIG will be reporting their progress to me biweekly, and my office, in turn, will provide consolidated biweekly status reports to key Administration officials and Congressional committees. Each IG will also be issuing individual reports as weaknesses or problem areas needing attention are identified. "Flash reports" will be prepared and distributed by each OIG when issues and problems that need attention are identified, and more extensive audit and inspection reports will be issued as completed.

DHS OIG will prepare regular status reports on the consolidated OIG efforts (initially every two weeks) to key administration and congressional officials. Briefings will be provided as and when requested.

I believe that, collectively, the Inspectors General are uniquely qualified and positioned to provide the most timely and effective oversight of Hurricane Katrina activities, and to ensure that the affected people receive the full benefit of the funds to be spent on the recovery.

Mr. Chairman, that concludes my prepared statement. I would be happy to answer any questions you or the Members may have.

Mr. WHITFIELD. Thank you, Mr. Skinner. At this time, Mr. Thomas Gimble, with the U.S. Department of Defense, for his opening statement.

TESTIMONY OF THOMAS F. GIMBLE

Mr. GIMBLE. Mr. Chairman, thank you for the opportunity to appear before you today to address the DoD audit and investigative oversight efforts regarding the Hurricane Katrina relief and recovery. The DoD and the Army Corps of Engineers were provided direct appropriations and FEMA mission assignments for recovery, repair, and protection of shorelines of the affected Gulf States. We are working in close coordination with all Inspectors General through the PCIE Homeland Security Roundtable to ensure effective utilization of DoD oversight resources in the relief and recovery efforts.

Specifically for DoD, the DoD Office of Inspector General, the Army Audit Agency, the Naval Audit Service, the Air Force Audit Agency, the Defense Contract Audit Agency, and the Defense criminal investigative organizations will employ a cadre of auditors, investigators, and inspectors to provide immediate and professional oversight of all DoD contracts, grants, and operations related to the hurricane relief and recovery efforts. To fulfill our statutory obligation/oversight responsibilities, we either have started or plan to start the following efforts. Our oversight effort will be on a real-time basis and provide immediate feedback as new issues are identified.

The DoD Office of Inspector General is initially planning work in five specific audit areas regarding the relief and recovery efforts: contract support and administration, increased purchase card limits, use of DoD resources and readiness and logistics support, con-

tingency plans for information technology systems, and the accounting and oversight of obligations and expenditures. The audit of the DoD contract support for hurricane relief will review the award and administration of DoD contracts used in the recovery effort. The audit of the expanded micro-purchase authority will focus on the reasonableness and appropriateness of expenditures and the early identification of questionable spending issues, and determine whether DoD policies and procedures need to be changed regarding the Hurricane Katrina-related efforts.

Third, we will review the use of military forces and DoD civilian personnel supporting the relief efforts, and determine the impacts on readiness and logistic support. We will also review the contingency operations and associated plans for information technology resources affected by Hurricane Katrina. The Office of Inspector General will also determine whether the DoD obligations and expenditures related to construction efforts are timely and efficiently executed in accordance with the applicable laws and regulations.

The Army Audit Agency is in the process of providing audit oversight of funds that the Army received for support provided by active Army and Army National Guard units, as well as the Corps of Engineers. The overall objective is to determine whether the Army appropriately is using the funds it is receiving for the Hurricane Katrina relief and recovery efforts. They have met with the Corps of Engineers to initiate this effort, and in addition, the Assistant Secretary of the Army Financial Management and Comptroller has requested audit support with the financial accounting and reporting of the relief funds.

The Naval Audit Service has been tasked by senior Navy management to provide audit oversight of the Navy and Marine Corps roles in the recovery effort. The Naval Audit Service plans audits on cash accountability, purchase cards, contracts, reimbursable arrangements, as well as financial accounting and reporting. In addition, the Naval Audit Service will provide independent and objective advice and oversight concerning relief for Navy and Marine Corps families affected by the hurricane.

The Undersecretary of Defense (Comptroller) designated the Assistant Secretary of the Air Force (Financial Management and Comptroller) as the as the Financial Manager for Joint Task Force Katrina. The Air Force Audit Agency has been tasked with auditing the financial management activities related to the relief operations. These auditors will review the Air Force procedures for receiving and disbursing funds in support of the relief operations, as well as tracking and requesting of FEMA reimbursements.

The Defense Contract Audit Agency has been requested by the Army Corps of Engineers Internal Review Team to provide contract and audit financial advisory services to the Corps of Engineers in support of the relief and reconstruction contracting activities. Currently, 14 DCAA auditors are in the Louisiana and Mississippi area providing contract audit assistance on Corps of Engineer contracts regarding debris removal and temporary roofing missions. Coordination is underway to identify contract audit requirements related to the Corps of Engineers relief and recovery missions. DCAA is also examining potential contract costs and pricing issues directly related to the hurricane, such as the loss of equipment and

facilities, equitable adjustment claims, loss of in-process work, and loss of accounting records.

The Defense Criminal Investigative Service has 43 agents in its Southeast Field Office who are prepared to assist in the investigation of fraud, abuse, corruption, and other crimes associated with the use of the DoD funds for the relief effort. DCIS could augment that force with resources from five other field offices, if the investigations warrant. Some of the initial activities which have already begun include coordinating with DoD procurement agencies, such as the Corps of Engineers, the Defense Logistics Agency, and the Defense Contract Management Agency, and the FEMA Office of Inspector General; partnering with various Federal, state, and local law enforcement agencies, relative to Joint Task Force Katrina; and also, conducting fraud awareness briefings to DoD contractors and procurement officials.

The Army Criminal Investigative Command, the Navy Criminal Investigative Service, and the Air Force Office of Special Investigations have been performing missions in support of law enforcement, military personnel, and the overall Force Protection of DoD military and civilian personnel involved in the relief efforts. Additionally, the Army Criminal Investigative Command is performing general crimes investigations relating to the recovery efforts.

The DoD Hotline is supporting the Department of Homeland Security and other agencies by standing up a Hurricane Fraud Hotline which will log, relay, and track incoming complaints and allegations of wrongdoing.

This concludes my oral statement, and I would be happy to answer any questions.

[The prepared statement of Thomas F. Gimble follows:]

PREPARED STATEMENT OF THOMAS F. GIMBLE, ACTING INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Mr. Chairman and Members of the House Energy and Commerce Subcommittee on Oversight and Investigations: Thank you for the opportunity to appear before the committee today to address the DoD audit and investigative oversight efforts regarding the Hurricane Katrina relief and recovery. The DoD and Army Corps of Engineers were provided direct appropriations and Federal Emergency Management Agency (FEMA) mission assignments for recovery, repairs, and protection of shorelines in the affected Gulf States. We are working in close coordination with all Inspectors General through the PCIE Homeland Security Roundtable on Hurricane Katrina to ensure effective utilization of DoD oversight resources in the relief and recovery efforts. Specifically for DoD, the DoD Office of Inspector General, the Army Audit Agency, the Naval Audit Service, the Air Force Audit Agency, the Defense Contract Audit Agency, and the Defense criminal investigative organizations will employ a cadre of auditors, investigators, and inspectors who will provide immediate and professional oversight of DoD contracts, grants, and operations related to Hurricane Katrina relief and recovery efforts. To fulfill our statutory oversight responsibilities, we have either started or plan to start the following efforts. Our oversight effort for Hurricane Katrina relief and recovery will be on a "real-time" basis and provide immediate feedback as issues are identified.

DOD OFFICE OF INSPECTOR GENERAL—AUDITING

The DoD Office of Inspector General is initially planning five specific audit areas regarding the Hurricane Katrina relief and recovery efforts—contract support and administration, increased purchase card limits, use of DoD resources in readiness and logistics support, contingency of information technology systems, and the accounting and oversight of obligations and expenditures. The "Audit of DoD Contract Support for the Hurricane Katrina Recovery Effort" will review the award and administration of DoD contracts used for the Hurricane Katrina recovery effort. The

"Audit of Expanded Micro-Purchase Authority for Purchase Card Transactions Related to Hurricane Katrina" will focus on the reasonableness and appropriateness of expenditures and the early identification of questionable spending issues and determine whether DoD policies and procedures need to be changed regarding the Hurricane Katrina related effort. Thirdly, we will conduct an "Audit of the Use of DoD Resources Supporting the Hurricane Katrina Disaster" and determine the impact on readiness and logistics support. Additionally, we will perform an "Audit of the Effects of Hurricane Katrina on DoD Information Technology Resources in Affected Areas." Lastly, the DoD Office of Inspector General will conduct an "Audit of Accounting and Oversight of Obligations and Expenditures related to the Department of Defense Hurricane Katrina Reconstruction Effort" to determine whether DoD obligations and expenditures related to the construction effort are timely and efficiently executed and in accordance with applicable laws and regulations.

ARMY AUDIT AGENCY

The U.S. Army Audit Agency is in the process of providing audit oversight of the funds the U.S. Army received for support provided by Active Army and Army National Guard units and the U.S. Army Corps of Engineers. The overall objective is to determine whether the Army appropriately used funds it received for Hurricane Katrina relief and recovery efforts. They met with the Corps of Engineers to initiate this effort. In addition, the Assistant Secretary of the Army (Financial Management and Comptroller) has requested audit support with the financial accounting and reporting of the Hurricane Katrina relief funds.

NAVAL AUDIT SERVICE

The Naval Audit Service has been tasked by senior Navy management to provide audit oversight of the Navy and Marine Corps roles in the recovery effort. The Naval Audit Service plans audits on cash accountability, purchase cards, contracts, reimbursable arrangements, as well as financial accounting and reporting. In addition, the Naval Audit Service will provide independent, objective advice and oversight concerning relief for Navy and Marine Corps families.

AIR FORCE AUDIT AGENCY

The Undersecretary of Defense (Comptroller) assigned the Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller) as the Financial Manager for Joint Task Force Katrina. The Air Force Audit Agency has been tasked with auditing the financial management activities related to the Hurricane Katrina relief operations. Auditors will review the Air Force procedures for receiving and disbursing funds in support of Hurricane Katrina relief operations and the tracking and requesting of FEMA reimbursements.

DEFENSE CONTRACT AUDIT AGENCY

The Defense Contract Audit Agency has been requested by the Army Corps of Engineers Internal Review Team to provide contract audit and financial advisory services to the Corps of Engineers in support of the relief and reconstruction contracting activities. Fourteen Defense Contract Audit Agency auditors are currently in Louisiana and Mississippi providing contract audit assistance on Corps of Engineers contracts regarding debris removal and temporary roofing missions. Coordination is underway to identify other contract audit requirements relating to Army Corps of Engineers relief and recovery missions. Defense Contract Audit Agency is also examining potential contract cost and pricing issues directly related to Hurricane Katrina such as loss of equipment and facilities, equitable adjustment claims, loss of in-process items, and loss of accounting records.

CRIMINAL INVESTIGATIVE SERVICES EFFORTS

The Defense Criminal Investigative Service has 43 agents in its Southeast Field Office who are prepared to assist in investigation of fraud, abuse, corruption, and other crimes associated with the use of DoD funds designated for Hurricane Katrina relief and recovery efforts. The Defense Criminal Investigative Service could augment that force with resources from five other field offices if the volume and complexity of investigations warrants. Initial activities, some of which have already begun, include coordinating with the DoD procurement agencies (i.e., the U.S. Army Corps of Engineers, the Defense Logistics agency, and the Defense Contract Management Agency) and the FEMA Office of Inspector General, partnering with various Federal, state, and local law enforcement agencies relative to the Joint Task

Force Katrina, and conducting fraud awareness briefings to DoD contractors and procurement officials.

The Army Criminal Investigative Command, the Navy Criminal Investigative Service, and the Air Force Office of Special Investigations have been performing missions in support of law enforcement and military personnel and the overall Force Protection of DoD military and civilian personnel involved in the relief efforts. Additionally, the Army Criminal Investigative Command is performing general crimes investigations.

In addition, DoD Hotline is supporting Department of Homeland Security and other agencies by standing up a Hurricane Fraud Hotline which will log, relay, and track incoming complaints and allegations of wrongdoing.

Mr. WHITFIELD. Thank you, Mr. Gimble. Now, it is my understanding that from the Department of Health and Human Services, that Mr. Vengrin and Mr. Little will give a joint opening statement.

Mr. VENGRIN. Yes.

Mr. WHITFIELD. And so I would assume, Mr. Vengrin, you will begin, then.

Mr. VENGRIN. Yes.

Mr. WHITFIELD. Joseph Vengrin.

Mr. VENGRIN. That is correct, Mr. Chairman. Thank you.

Mr. WHITFIELD. Okay.

TESTIMONY OF JOSEPH E. VENGRIN AND MICHAEL E. LITTLE

Mr. VENGRIN. I am here today to describe the initial activities of that the HHS OIG Office of Audit Services, in guarding against fraud, waste, and abuse in the post-hurricane relief and recovery efforts. Mr. Little will present the investigative response.

We share your concern, and the concerns of all Americans for the thousands of children and families affected by the recent hurricane. To be responsive, necessary relief services must be provided quickly and effectively. In that regard, HHS has announced a number of relief steps, including a relaxation in controls to make health and human services available to hurricane victims without the usual documentation requirements.

Unfortunately, the difficult circumstances created by Katrina provides an enormous opportunity for fraud, waste, and abuse. To curb those intent on gaming the system and to safeguard taxpayer dollars, we are continuously updating our post-hurricane work plans. The audit efforts are a major challenge and are further complicated by the state of change in waiving certain programmatic requirements, the delivery of service, the need for expedited contract activities, and the long-term nature of the Federal response.

This morning, I will describe how we plan to meet those challenges; specifically, I will explain our oversight planning process, and our coordination effort with other agencies. In our oversight planning process, we are particularly committed to ensuring that funds are used for authorized transactions that comply with procurement standards, and the goods and services are properly delivered.

Immediately following Katrina, OIG established a Hurricane Relief Working Group comprised of senior managers from the OIG offices. Under the direction of this group, OIG is reviewing proposed program changes to identify potential vulnerabilities for fraud, waste, and abuse that require increased scrutiny. For each major HHS program and activity, OIG is assessing initial risks associated

with the relaxation of the internal controls over expedited payments. We are considering the complexity and magnitude of the program or activity, the extent of changes in the control environment, and the materiality of funds exposed to the increased risk. Based on these risk assessments, we are developing specific work plans, focused on the most vulnerable programs and activities.

In implementing our work plan, we will test the effectiveness of the internal controls within the Department, at State governments, contractors, grantees, and health service providers. We will focus on compliance with procurement standards, pricing guidelines, and other Federal requirements. We will also search for aberrant patterns of payments to contractors and health service providers, and perform detailed tests of selected transactions.

Our program evaluation and inspection work plan is on a similar track. We are identifying issues to gauge the effectiveness of the HHS response. Potential areas include evaluating evacuation planning for institutions such as hospitals, and for foster care children. As we develop and execute our hurricane relief work plan projects, we are coordinating with several organizations. GAO and OIG are both committed to conducting oversight work in a non-duplicative manner. Additionally, as a member of the PCIE's Homeland Security Roundtable, we have actively participated in the coordination of the government-wide OIG hurricane response.

I will now turn to Mr. Little to present the investigative response.

Mr. LITTLE. Good morning.

I am very proud of the response of the HHS OIG in the aftermath of Hurricane Katrina, and would like to briefly describe some of the steps that our office took to provide immediate support. Secretary Levitt declared a public health emergency for the Gulf Coast states as a result of Hurricane Katrina, and sent HHS employees to provide immediate medical assistance to the survivors and evacuees. In order to ensure the safety of HHS personnel and equipment in the impact area, Secretary Levitt asked the Inspector General to provide security assessments of the facilities being set up, as well as to provide security to HHS personnel.

On September 2, I sent out an email message to all criminal investigators in OIG. Within the first 24 hours, we had received over 60 volunteers. By September 8, two 11 person teams were deployed to Mississippi and Louisiana. The OIG teams provided physical security assessments for the mobile medical sites, and performed 120 protective service missions for HHS personnel deployed in the New Orleans area.

The destruction of Hurricane Katrina has resulted in a number of allegations relating to the deaths of patients in healthcare facilities in the New Orleans area. We have been informed of over 20 incidents in which healthcare providers abandoned or possibly engaged in other activity resulting in the deaths of Medicare or Medicaid beneficiaries. We are conducting investigations of those allegations, along with our Federal and State partners, to ascertain if criminal laws were violated, and appropriate actions will be taken at the conclusion of our investigations.

Mr. VENGRIN. Mr. Chairman, the approach that Mike and I have outlined involves continuous evaluation and modification, as re-

quired, to ensure that OIG accomplishes its mission of protecting the integrity of HHS programs. We believe that our results will provide the subcommittee and other decisionmakers with important information on accountability for Federal response dollars.

Thank you for the opportunity to testify. We welcome your questions.

[The prepared statement of Joseph E. Vengrin and Michael E. Little follows:]

PREPARED STATEMENT OF JOSEPH E. VENGRIN, DEPUTY INSPECTOR GENERAL FOR AUDIT SERVICES AND MICHAEL E. LITTLE, DEPUTY INSPECTOR GENERAL FOR INVESTIGATIONS, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Chairman Whitfield and members of the Subcommittee, I am Joseph Vengrin, Deputy Inspector General for Audit Services. Accompanying me is Michael Little, Deputy Inspector General for Investigations.

We are appearing before you today to describe the initial activities of the Office of Inspector General (OIG) of the U.S. Department of Health and Human Services (HHS) to guard against fraud, waste, and abuse in the post-Katrina relief and recovery efforts.

We share your concern, and the concern of all Americans, for the thousands of children and families affected by the recent hurricanes. The loss of life, property, and livelihoods is tremendous. To be responsive, necessary relief services must be provided to victims expeditiously and effectively. It is vital that funds and services be appropriately directed to ensure that people in the affected areas have their immediate needs met and recover as soon as possible. At the same time, we must work to ensure that funds spent on this endeavor are not mismanaged or used fraudulently, which would deprive people of the intended benefit.

HHS has announced a number of steps in response to Katrina. These steps include a relaxation in controls to make needed health and human services accessible under these very difficult circumstances. This flexibility is intended to permit hurricane victims to receive benefits and services without the usual documentation requirements. Services with immediate new flexibilities include Medicaid, Temporary Assistance for Needy Families (TANF), child care, foster care assistance, mental health services, and substance abuse treatment services. In another announced step, HHS continues to furnish health care providers and medical supplies to the Gulf area.

Unfortunately, the difficult circumstances created by Katrina provide an enormous opportunity for fraud, waste, and abuse. The sheer magnitude of these disasters and the still-evolving costs of the relief efforts present challenges. As we continue our work planning efforts, we must also consider the current state of flux in waiving certain programmatic requirements in the delivery of departmental services, the need for increased and expedited contracting activities, and the long-term nature of the Federal response. OIG's work plan will be continuously updated to reflect changes in the Department's response.

This morning we will describe OIG's oversight planning process, particularly as it relates to auditing; some of our initial activities on the investigative oversight and enforcement front; and finally, HHS/OIG's coordination with other agencies.

OIG'S OVERSIGHT PLANNING PROCESS

With the destruction of infrastructures, systems, and communities and the dislocation of populations caused by Hurricane Katrina, OIG is particularly committed to ensuring that funds are used for valid and authorized transactions that comply with appropriate procurement standards, that goods and services are procured and delivered correctly, and that problems are prevented rather than identified after the fact.

Immediately following the hurricane, OIG established an OIG-wide Hurricane Relief Working Group, which is addressing issues as they arise in the aftermath of Hurricane Katrina. The group comprises senior managers from our Offices of Audit Services, Investigations, Evaluation and Inspections, Counsel, and Management and Policy. This group is focusing OIG resources to address both immediate and longer term needs. Under the direction of this group, OIG is reviewing proposed program changes to identify potential vulnerabilities for fraud, waste, and abuse that require increased scrutiny. Detailed below are some of OIG's specific actions to date in response to Katrina.

Risk Assessment

For each major program and activity identified by the Department, OIG is assessing the initial risks associated with relaxing internal controls over expedited payments. The assessments are covering such programs as Medicare, Medicaid, and TANF; the activities of the Centers for Disease Control and Prevention (CDC); and funds transferred from the Federal Emergency Management Agency. We are considering factors such as the complexity and magnitude of the program or activity and the extent of changes in the control environment. As part of this process, we are considering the materiality of funds exposed to increased risk and any implemented mitigating controls.

Special Work Plans

Using the results of these risk assessments, we are developing special work plans, focusing our audit and inspection efforts on the most vulnerable programs and activities.

In implementing our audit work plan, we will use standard audit procedures to test the effectiveness of internal controls both within the Department and at State governments, contractors, grantees, and health service providers. The audits will occur as the relief effort continues and will collectively provide ongoing testing and monitoring of the programs. Where appropriate, our audits will determine whether contract and grant awards, as well as payments to health service providers, comply with procurement standards, pricing guidelines, and other Federal requirements. Selectively, we will audit costs incurred and determine whether goods and services were delivered to the intended recipients. Using advanced audit techniques as necessary, including data mining capabilities, we will search for aberrant patterns of payments to contractors and health service providers.

In conducting audits such as these, OIG will examine the organizational structures associated with the disaster response to determine whether clear lines of authority and communication and appropriate oversight have been established. We will review recent legislation and the status of proposed statutory and regulatory changes for program administration and eligibility. In a high-risk environment such as this, we will particularly focus on changes in existing internal controls and the impact of those changes on the risk of fraud, waste, and abuse.

If audits identify potentially fraudulent acts, our Offices of Investigations and Counsel will consult with the Department of Justice to determine whether and what enforcement actions are warranted. We will also rely on our existing fraud hotline. We anticipate that the hotline is capable of receiving and processing all allegations of fraud, waste, and abuse that may be received.

In addition to initiating audit activities and relying on our hotline, we are developing a program evaluation and inspection work plan. A body of work completed subsequent to September 11, 2001, which examines preparedness for responding to public health disasters, will facilitate OIG's ability to conduct reviews of disaster response relative to Katrina. OIG is identifying issues to gauge the effectiveness of the HHS response. Potential areas include evaluating evacuation planning for institutions such as hospitals and nursing homes and for children in foster care.

INVESTIGATIVE OVERSIGHT AND ENFORCEMENT

In addition to assessing current and future audit and inspection requirements, OIG has provided onsite support and investigative oversight and enforcement for the Katrina response. OIG's agents are providing this onsite support in response to the Secretary's request.

Following is a brief chronology of OIG's interaction with the Department to provide immediate support and investigative oversight and enforcement.

- As Hurricane Katrina approached landfall, the Secretary stressed to departmental officials that this was HHS's moment to be truly about health and human services, in the humanitarian sense. During these discussions, the Inspector General was asked to provide security to HHS's onsite operations and any other services that he deemed necessary. Accordingly, OIG assessed the types of assistance it could initially provide.
- On September 2, OIG requested volunteers from among its criminal investigators nationwide. Within 24 hours, over 60 special agents had volunteered to go to the Gulf States area to assist in the hurricane relief efforts. For these agents to perform onsite security activities in this unusual context, a Special Deputation by the U.S. Marshals Service was necessary.
- By September 8, the first 2 teams of 11 OIG agents were deployed to Louisiana and Mississippi. The initial need for OIG agents was to provide security assessments for the mobile medical care sites established by the Department and

staffed by HHS employees. If the site was not secure, OIG agents secured the area and reported to the U.S. Public Health Service (USPHS) Commissioned Corps Admiral (the individual the HHS Secretary had placed in charge of a consolidated HHS hurricane response), requesting assistance to properly secure the facility if necessary before moving on to evaluate the next facility.

- By September 14, the team in Mississippi had performed security assessments at several hospital sites being established in Waveland and Meridian. The team had also provided personal security to HHS staff who performed outreach in the community to ensure that those in need knew of and took advantage of the health care services available to them. At the request of the USPHS Admiral on site, the OIG team also conducted a physical security survey of three hotels where HHS staff were lodged.
- To date, OIG has provided protection for three visits to the region by the Secretary.
- After securing all HHS operational sites in Louisiana as well, including Kindred Hospital in New Orleans, which became an operational center, this team performed personal security of CDC personnel who were going into communities to collect water and dust samples from the flood-affected areas and perform outreach activities. Several protection operations occurred daily, all of which were coordinated with the Admiral's staff.
- On September 21, OIG special agents assisted in the safe evacuation of HHS medical officials and scientists operating out of New Orleans to avoid danger from approaching Hurricane Rita.

The impact of Hurricane Katrina has resulted in a number of allegations relating to deaths of patients under questionable circumstances at several health care facilities throughout the New Orleans area. We have been informed of over 20 instances within the past weeks in which health care providers abandoned or possibly engaged in activity resulting in the deaths of Medicare/Medicaid beneficiaries. We have initiated investigations in which we are working with appropriate Federal and State partners to determine if Federal or State violations have occurred. This will be no small task, as the individuals who need to be interviewed are now scattered across the country.

To date, over 120 of OIG's agents have volunteered to assist with the disaster response. This activity is being funded from OIG's discretionary appropriation.

The duration of OIG agents' onsite presence is unknown at this point, but we will continue to support the relief effort. We are carefully controlling these deployments of agents due to the obvious drain on normal investigative workloads. Because of the massive Federal dollars needed to rebuild the New Orleans health and human services infrastructure, we expect a very high potential for waste, fraud, and abuse.

OIG'S COORDINATION WITH OTHER AGENCIES

Government Accountability Office

OIG has met with the Government Accountability Office to discuss ways to maximize our effectiveness by coordinating Katrina-related work projects that may overlap. Both offices are committed to conducting oversight work in a complementary, nonduplicative manner.

Department of Justice

OIG will meet within the next week with its Department of Justice colleagues to discuss the role OIG can play in civil fraud legal matters relating to Katrina.

President's Council on Integrity and Efficiency

As a member of the President's Council on Integrity and Efficiency, Homeland Security Roundtable, HHS OIG has been actively participating in the coordinated Inspectors General response to Hurricane Katrina. As part of that response, our office provided a plan to the Inspector General of the Department of Homeland Security outlining activities to ensure the integrity of response dollars spent by HHS. Our office will continue to play an active role in the OIG community-wide response to the hurricane.

State Auditors and Independent Public Accounting Firms

OIG will coordinate its efforts in affected States with the offices of the State auditors and with Independent Public Accounting firms, which perform audits of non-Federal recipients of HHS funds. This coordination could increase audit coverage of Katrina relief and recovery efforts.

CONCLUSION

The approach outlined here forms the basis for a comprehensive program of testing, monitoring, and investigative oversight of programs placed at increased risk as a result of Hurricane Katrina. We are focusing the appropriate level of resources on the Department's programs with the greatest risk of fraud and abuse. The approach involves continuous evaluation and modification, as required, to ensure that OIG accomplishes its mission of protecting the integrity of the Department's programs and the health and welfare of the beneficiaries of those programs. We believe that our results will provide the Subcommittee and other decisionmakers with important information on accountability for Federal response dollars.

Thank you for this opportunity to testify. Your questions are welcome.

Mr. WHITFIELD. Thank both of you, and at this time, I will recognize Nikki Tinsley, with the Environmental Protection Agency.

TESTIMONY OF NIKKI L. TINSLEY

Ms. TINSLEY. Good morning, Mr. Chairman. I am pleased to be here to discuss Katrina-related work of the Environmental Protection Agency Office of Inspector General.

Like the rest of the country, I watched in horror as Katrina devastated the lives of residents in Louisiana, Mississippi, Alabama, and Florida, and wreaked havoc on the environment on an unprecedented scale. While EPA has not received any direct appropriation in either the emergency supplementals, it has received $136 million from the Federal Emergency Management Agency and about $3 million from the Army Corps of Engineers. More than half of this money is passed through to the Coast Guard.

Our office has auditors, program evaluators, and investigators who have already begun reviewing contracts and operations related to EPA's hurricane response efforts. Our current work includes monitoring EPA operations, internal controls, expanded micro-purchase authority, and EPA's disaster management activities. An overarching objective of all our efforts is to work with EPA to prevent or minimize problems, and to advise EPA on the potential ramifications of its precedent setting decisions as emergency response and recovery activities continue.

We will look at whether EPA provided high quality and timely information to Gulf State residents and others about the safety of their drinking water, addressing issues including whether potential sources of waterborne diseases caused by contaminated drinking water are identified and contained, and whether EPA's protocols, including the lessons learned from the World Trade Center, and the responsibilities delineated in the National Response Plan, reduced citizen exposure to contaminated water.

We will look at whether EPA provided accurate and timely data to the public and others about the health and environmental risks of hazardous material spills and sediment contamination, addressing issues including how EPA determined the nature, magnitude, and impact of oil and hazardous material spills and sediment contamination, and how EPA distinguished between hazardous and non-hazardous hurricane debris and waste, and if those distinctions were applied consistently across the Gulf Coast region.

Because the EPA's work crosses Federal, state, and local jurisdictions, we use existing partnerships with Federal, state, and local audit and investigative organizations to coordinate and ensure adequate, cost-effective oversight.

Finally, I want to tell you about an effort our office is leading that looks at ways to improve grant accountability. Rick Skinner mentioned that much of the Katrina recovery effort will be funded through grants to states, to local governments, and to others. With the input and assistance of over 20 Federal, state, and local audit organizations, our office has developed a Guide to Grant Accountability that will provide leaders at all levels of government with proven practices to ensure that grant expenditures produce the products and services envisioned when the grants are awarded. We expect to issue this guide next month. The guide will be useful. It will be a useful and timely tool for those involved in the Katrina response and rebuilding efforts.

As the Gulf States begin to rebuild, my office, in partnership with my colleagues at GAO and in the Inspector General community, is committed to ensuring that Katrina funds are properly managed and spent.

This concludes my oral comments, and I would be happy to respond to any questions.

[The prepared statement of Nikki L. Tinsley follows:]

PREPARED STATEMENT OF NIKKI L. TINSLEY, INSPECTOR GENERAL, U.S. ENVIRONMENTAL PROTECTION AGENCY

Good morning Mr. Chairman and Members of the Subcommittee. I am pleased to be here today to discuss the current and planned work of the Environmental Protection Agency (EPA) Office of Inspector General (OIG) to detect and guard against fraud, waste, and abuse during post-Hurricane Katrina response and rebuilding efforts. Like the rest of the country, I watched in horror as Katrina devastated the lives of residents in Louisiana, Mississippi, Alabama, and Florida, and wreaked havoc on the environment on an unprecedented scale, the impact of which is still to be determined. Some estimate that the final cost for the response and rebuilding effort in the affected areas could reach $200 billion. The final figure may be even higher given the damage caused by Hurricane Rita in Texas and Louisiana this past weekend. As these Gulf States begin to rebuild, the EPA-OIG, in partnership with my colleagues in the Inspector General community, is committed to ensuring that Katrina funds are properly managed and spent, and that fraud and abuse are deterred and detected.

EPA KATRINA RELIEF FUNDING

Congress has enacted two emergency supplemental appropriations providing over $63 billion for Katrina relief. Those funds have been appropriated to the Department of Homeland Security (DHS) and the Department of Defense. While EPA has not received any direct appropriation in either spending measure, it has received $135.1 million in mission assignments from the Federal Emergency Management Agency (FEMA). FEMA has authorized EPA to perform relief and recovery work such as providing technical assistance, conducting environmental assessments and removal and disposal activities so long as costs do not exceed this amount. EPA has also received $3 million from the U.S. Army Corps of Engineers. Of this $138.1 million, $67.3 million is a direct pass-through to the Coast Guard. To date, EPA has obligated $57.1 million, with $41.3 million going to the Coast Guard.

OIG OVERSIGHT PLAN OF EPA'S KATRINA RESPONSE EFFORTS

The OIG has auditors, program evaluators, and investigators who can provide immediate and continuing oversight of contracts, grants, and governmental operations related to EPA's Hurricane Katrina response efforts. Our current work includes monitoring the following areas: EPA operations; internal controls; contracts, grants, and expanded micro-purchase authority; and EPA's disaster management activities in response to Katrina. These are the areas we believe need aggressive oversight immediately so that steps can be taken to address vulnerabilities before they might lead to fraud, waste, or abuse.

As part of our initial oversight effort, the OIG intends to devote approximately five investigators, eight program evaluators, and six auditors to provide Katrina oversight, as well as two Information Technology Specialists for data mining. We

will use existing hotline capabilities to handle all complaints of fraud, waste, and abuse involving EPA funds. We will also use existing partnerships established through the U.S. Comptroller General's Domestic Working Group, the President's Council on Integrity and Efficiency's (PCIE) Homeland Security Roundtable, and the Intergovernmental Audit Forum to coordinate and ensure adequate, cost-effective audit coverage. We also have an existing interagency agreement with the Defense Contract Audit Agency that we can use to provide additional financial audit coverage of contractors.

Beyond these immediate activities, our plan provides for continuing oversight of EPA response efforts. Within six months, we intend to complete reviews of whether EPA provided accurate and timely data to the public along with Federal, State, and local decision makers regarding the safety of drinking water and waste water and on the health and environmental risks of Superfund sites, hazardous material spills, sediment contamination, and other hurricane debris. Finally, we plan to issue a guide on promising practices developed by Federal, State, and local agencies to improve grant accountability through the Domestic Working Group chaired by the U.S. Comptroller General. Our plan is detailed below.

Overseeing EPA Operations

We will monitor EPA operations to stay current on all disaster response operations and provide advice as necessary. Our objective in this effort is to help EPA design and implement internal controls and advise EPA on the potential ramifications of its precedent-setting decisions as emergency response and recovery activities continue.

We have deployed an advance team of Special Agents to evaluate the conditions on the ground in Mississippi and Louisiana. This team will coordinate with FEMA and to assess housing and facilities to support another team to be deployed in the near future. We are organizing a second team to serve as backup support with a secondary emergency response capability to Galveston and Houston, Texas. A third group of agents are on standby, preparing equipment for deployment. These EPA-OIG investigators will coordinate and monitor EPA contracting activity, liaison directly with EPA On-Scene Coordinators and contract personnel, and coordinate with Federal, State, and local law enforcement. OIG investigators will handle criminal allegations developed through field activity, liaison, and on-site observation, as well as allegations received as a part of the Department of Justice task force, our OIG hotline, or other means.

Monitoring Controls

Effective internal controls are vital to safeguarding funds and operations. We will review contracting and other controls to ensure that transactions are properly authorized and documented; funds are properly accounted for; property and equipment is safeguarded against loss; questionable activities, including activities not in support of mission requirements, are identified; timely and accurate analyses of samples by laboratories are conducted; misspending is prevented or minimized; and Federal laws and regulations are followed.

Reviewing Contracts, Grants, and Expanded Micro-Purchase Authority

We will review contract and grant award administration, along with EPA's expanded micro-purchase authority to ensure that Federal acquisition regulations are adhered to. Expenditures will be reviewed on a real-time basis to ensure they are necessary and reasonable. This is critical given that the purchase card threshold has been raised from $2,500 to $250,000 for Katrina-related expenditures, and that the requirement for competitive bids on Katrina-related contracts has been eliminated. Data mining techniques will provide continuous oversight of purchase card transactions to identify spending anomalies for further review. OIG efforts in these areas will be focused on preventing or minimizing problems.

We have expanded our work on EPA's financial statements to include EPA's activity related to the Katrina response effort. Our audit work will include tests of EPA's internal controls for identifying and charging costs for Katrina response. We will also test disbursement, obligation, and payroll transactions related to Katrina response for the month of September 2005, which is the end of the financial audit period. These tests will include statistical sampling of transactions, analytical reviews, and overall account analysis of activity.

EPA has set up new codes in its accounting system to record Katrina response transactions. We will analyze the costs charged to those codes to see if they appear reasonable in relation to the nature and types of costs. When we identify questionable transactions or trends, we will follow up with EPA to make recommendations to strengthen controls. While our current work will primarily address activity in

September 2005, it will provide a basis for continuing analysis of Katrina activity for fiscal 2006.

Evaluating EPA's Disaster Management Activities in Response to Hurricane Katrina

We will evaluate the effectiveness of EPA's role in protecting the health of citizens, responders, volunteers, and the environment under the National Response Plan (NRP) and statutes governing EPA operations, including the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Clean Water Act; the Safe Drinking Water Act; and the Clean Air Act. We will also evaluate any subsequent modifications or waivers to these plans and statutes. Specifically, we will look at whether EPA provided high-quality and timely information to Gulf State residents and others about the safety of their drinking water. Among the issues we will be addressing are whether potential sources of waterborne diseases caused by contaminated drinking water are identified and contained; and whether EPA's protocols, including those lessons learned from the World Trade Center and the responsibilities as delineated in the NRP, reduce citizen exposure to contaminated drinking water. We will look at whether EPA provided accurate and timely data to the public and others about the health and environmental risks of hazardous material spills, Superfund sites, and sediment contamination in the affected regions. Among the questions we will ask are how EPA determined the nature, magnitude, and impact of oil and hazardous material spills and sediment contamination; and how EPA made distinctions between hazardous and non-hazardous hurricane debris and waste, and if those distinctions were applied consistently across the Gulf Coast region.

Developing a Guide on Grant Accountability

On behalf of the U.S. Comptroller General's Domestic Working Group, the OIG is leading an effort to look at ways to improve grant accountability so that the billions spent in Federal grants each year are properly used and the desired results achieved. With the input and assistance of over 20 Federal, State, and local audit agencies, the end product will be a guide to grant accountability that will provide Government leaders at all levels with ideas to ensure that grant expenditures produce the products and services envisioned when they are awarded. We expect to issue this guide in October. The guide can be a useful and timely tool for those Government agencies involved in the Katrina response and rebuilding efforts.

COORDINATION WITH THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

We will also be working closely with the President's Council on Integrity and Efficiency Homeland Security Roundtable, chaired by the DHS Inspector General. This group is composed of Inspectors General from the 12 other departments and agencies that have been issued the largest mission assignment allocations from FEMA. We will continue to assist the Roundtable by providing information about EPA's use and management of its funds whenever called upon.

CONCLUSION

As EPA assists in the response and rebuilding efforts in the months ahead, the OIG will work to ensure that funds are guarded against fraud, waste, and abuse without impeding the progress of those efforts. I believe the OIG has developed an excellent oversight plan, but given the fluidity of the situation in the Gulf States, we will reassess our plan and make any necessary adjustments as events unfold. This concludes my written statement. I would gladly answer any questions the Subcommittee may have at this time.

Mr. WHITFIELD. Thank you, Ms. Tinsley. At this time, we will recognize Johnnie Frazier, with the Department of Commerce.

TESTIMONY OF JOHNNIE E. FRAZIER

Mr. FRAZIER. Good morning, Mr. Chairman. Thank you for the opportunity to appear before the subcommittee today.

The Department of Commerce is a diverse organization, capable of bringing a broad array of scientific and economic resources to bear, both before and during times of need. As Americans and the world watched just about every move associated with the government's post-Katrina relief and recovery efforts, and demand real-time oversight, two key points emerge. First, the Federal Govern-

ment faces an unprecedented challenge that demands unprecedented and flexible solutions. And second, the bureaucratic flexibility and large infusions of resources that may accompany the rebuilding effort inherently increase the potential for fraud, waste, and abuse. Thus, vigilant oversight of agency efforts by the Inspectors General, working cooperatively and collaboratively, and quite candidly, smartly, is critical to helping prevent and detect unauthorized activities and expenditures.

I believe that the Inspectors General are well positioned to help in this regard. We know our agencies well, the good, the bad, and the ugly. Each year, for example, Inspectors General identify the top management challenges facing their agencies, and hence, are aware of their agencies' strengths, and more importantly, their weaknesses. Each year, the IG community compiles and reviews this information to reveal any trends that may be facing our government. Across all agencies and departments, the areas of procurement, financial, and grants management, and information technology security have consistently been cited as very vulnerable to fraud, waste, and abuse. Not surprisingly, these are some of the key areas and means by which government agencies will deliver and manage their relief efforts. These trends, combined with the Federal Government's need to respond quickly to the urgent economic recovery of the Gulf region highlight the importance of stringent, and again, real-time oversight by the Inspectors General.

The Department of Commerce plays a critical role in rebuilding and safeguarding economic infrastructure, and assisting in business recovery. For example, everyone knows of NOAA's critical weather forecasting and other responsibilities, but our Economic Development Administration, and the National Institutes of Standards and Technology, the Bureau of Industry and Security, and others are also playing important roles in the Gulf region.

In the important category of lessons learned, I will note that my office has overseen activities related to hurricane relief and recovery before, including EDA's administration of grant programs to fund infrastructure and business development. In September 1998, we issued a report on the evaluation of EDA's handling of Hurricane Andrew assistance program. I have recently shared that report with senior EDA and departmental officials, reminding them that after that hurricane hit, EDA did a good job of quickly selecting and funding projects; however, there were serious problems with some projects that were late in starting, and extremely slow in being completed.

These projects also tied up millions of dollars that should have been put to better use for other disaster recovery purposes. Our key findings in that report, and clearly lessons learned relevant to Katrina-related recovery effort, are that Commerce and other Federal agencies that will use grants as a form of financial assistance need to very forcefully focus immediate rebuilding efforts on vital infrastructure and commercial concern, enforce standard monitoring principles, for example, insist on the status reports, stay involved, and provide consistent, ongoing oversight both onsite and from agency headquarters, and quickly rehabilitate or terminate projects that are failing to meet milestones, and transfer those funds to other disaster recovery purposes.

In the interests of time, let me conclude by telling you that we are already working with a wide array of people in the Department, the IG community, and others to actively monitor Commerce programs. We also understand the importance of enhancing public trust as we determine whether appropriate management controls and procedures are in place. And we will work to resolve any weaknesses we identify, so that Congress and the American public can have increased confidence that taxpayers dollars are being spent as intended.

Thank you.

[The prepared statement of Johnnie E. Frazier follows:]

PREPARED STATEMENT OF JOHNNIE E. FRAZIER, INSPECTOR GENERAL, U.S. DEPARTMENT OF COMMERCE

Chairman Whitfield, Congressman Stupak, and Members of the Subcommittee: Thank you for the opportunity to appear before the subcommittee today on the plans of the inspectors general to guard against waste, fraud, and abuse in post-Katrina relief and recovery.

The Department of Commerce is a diverse organization, capable of bringing a broad array of scientific and economic resources to bear both before and during times of need. It was, for example, reassuring that the Department's National Weather Service's early forecasts of the location and intensity of Hurricane Katrina saved lives. Now, Commerce agencies' roles in relief and recovery are crucial in helping rebuild damaged ports and transportation infrastructure and in hastening the return of economic vitality to the Gulf region.

The President's National Response Plan relies on the Department to provide direct support to the Department of Homeland Security (DHS) in preparing for, responding to, and recovering from major natural disasters: from tracking and providing advance warning of hurricanes and other weather-related phenomena to assessing structural damage and costs, from administering developmental and financial assistance to prioritizing the procurement of goods from the private sector to meet critical needs.

As Americans and the world watch just about every move associated with the government's post-Katrina relief and recovery efforts, two key points emerge: (1) the federal government faces an unprecedented challenge that demands unprecedented and flexible solutions; and (2) the bureaucratic flexibilities and large infusions of resources that may accompany the rebuilding effort inherently increase the potential for fraud, waste, and abuse. Thus, vigilant oversight of agency efforts by the inspectors general, working cooperatively and collaboratively, is crucial to helping prevent and detect unauthorized activities and expenditures.

Each year inspectors general identify the top management challenges facing their agencies. The President's Council on Integrity and Efficiency compiles and reviews this information to reveal any trends that may be facing our government. Across all agencies and departments, the areas of procurement, financial and grants management, and information technology security have been consistently cited as areas vulnerable to waste, fraud, and abuse. These trends combined with the federal government's need to respond quickly to the urgent economic recovery needs of the Gulf region highlight the importance of stringent oversight by inspectors general.

My statement will briefly summarize the Department's different roles and responsibilities in responding to emergencies, including some specifics on recovery actions in the aftermath of Katrina, findings from our relevant evaluation of post-Hurricane Andrew recovery efforts and their implications for Katrina, and my office's oversight role in helping prevent and detect unauthorized activities in the aftermath of Hurricane Katrina.

COMMERCE'S EMERGENCY RESPONSE ROLE IS DIVERSE

The Department plays a critical role in rebuilding and safeguarding economic infrastructure and assisting business recovery, and has thus been mobilizing resources to help the Gulf region recover. The **National Oceanic and Atmospheric Administration (NOAA)** tracks and forecasts weather and provide advance warning about the potential severity and impact of natural occurrences on the United States. I have been encouraged by Congress's positive assessments of the National Weather Service's work in tracking Katrina and providing information before and after the hurricane made landfall. These timely predictions undoubtedly saved lives. Through

the years, I have personally met with many of these talented and committed professionals, who are passionate about making accurate predictions to help victims prepare for and recover from weather events.

But NOAA plays a much broader role in economic recovery post-Hurricane Katrina: surveying ports and waterways via aircraft and satellite imagery to assess damage and assist vessel movement, helping federal and state agencies mitigate environmental hazards, and conducting salvage operations. In addition, stewardship of our ecosystems is critical during emergencies, and NOAA is assessing the hurricane's impacts on habitat and fisheries in the Gulf while at the same time reviewing options to ease regulatory burdens on commercial and recreational fisherman. To date, NOAA has received over $2 million from DHS for recovery efforts.

The **Economic Development Administration (EDA)** works in partnership with state and local government, regional economic development districts, and other entities to help communities address problems associated with long-term economic deterioration as well as recent, severe economic dislocations such as those the Gulf region is undergoing. EDA administers a diverse range of grants programs and funds infrastructure and business development to induce private investment in the types of business activities that contribute to long-term economic stability and growth. These programs are key elements in comprehensive economic recovery and have great potential to assist in the current situation.

The **National Institute of Standards and Technology (NIST)** is at the forefront of the U.S. government's efforts to develop and promote measurement, standards, and technology to enhance productivity, facilitate trade, improve quality of life, and bolster national security. As part of the federal government's National Response Plan, NIST, for example, is working with the Federal Emergency Management Agency (FEMA) to assess structural damage in the Gulf area. Through the Hollings Manufacturing Extension Program, NIST also plans to review the impact of the hurricane on small manufacturers in those areas affected by the storm.

The **Bureau of Industry and Security (BIS)** must assure the timely availability of industrial resources to meet emergency preparedness requirements under the Defense Priorities and Allocations System Program (DPAS). DPAS allows the Department to prioritize the delivery of critical resources from commercial sources to ensure that federal and private sector entities can support recovery operations during emergency situations. BIS is using DPAS authority to assist with critical infrastructure restoration projects related to the Gulf's recovery. In addition, FEMA has been delegated authority to use BIS' DPAS regulations to place priority contracts for materials, services, and facilities in support of Hurricane Katrina recovery operations, including rescue, medical, health and sanitation services; essential debris clearance; and immediate repair or restoration of damaged vital facilities.

The **Bureau of Economic Analysis (BEA)** produces economic accounts statistics that enable government and business decision-makers, researchers, and the American public to follow and understand the state of the nation's economy. These accounts impact critical decisions affecting monetary policy, tax and budget projections, and business investment plans. Natural disasters like Hurricane Katrina have two major economic effects: destruction of property and disruption of the flow of production, income, and spending. BEA will be estimating hurricane costs as part of the 3rd quarter gross domestic product and other indicators for August and September.

The **International Trade Administration (ITA),** working in conjunction with DHS, the White House, and other agencies, has launched a Hurricane Relief Call Center to match community needs with private sector donations or saleable goods. Through access to DHS' National Emergency Resource Center database and information received directly from the business community, the Department aims to put donors and those in need in direct contact within 24 hours of a match. In addition, ITA recently worked with other agencies to allow U.S. apparel importers to release goods embargoed under China textile safeguard actions for the purpose of providing aid to Katrina victims.

The **Office of the Secretary** has made the combined efforts of Commerce bureaus in responding to Katrina a top priority. The Secretary is holding weekly executive-level meetings during which each bureau head must report on Katrina activities and related expenditures. To its credit, the Department's Offices of Budget, Acquisition Management, and Financial Management immediately began working to implement appropriate internal controls and special project codes for capturing and reporting costs related to Katrina. The Department has advised that controls and processes are now in place to track and monitor its Katrina-related program activities, and its integrated financial management system allows for detailed reporting of obligations and expenditures.

ACCOUNTABILITY, OVERSIGHT, AND LESSONS LEARNED

The rebirth of the Gulf region relies first and foremost on the recovery of businesses and reconstruction of vital infrastructure. This process will require an influx of resources and a possible loosening of ordinary requirements **[I don't understand what you mean by "ordinary requirements"]** to expedite the delivery of assistance to communities. Huge infusions of dollars, coupled with more flexible rules, create an environment ripe for possible fraud, waste, and abuse. Thus, the oversight role of the inspectors general, working cooperatively and collaboratively, is crucial to preventing and detecting unauthorized activities during recovery efforts.

My office has overseen activities related to hurricane relief and recovery before. In September 1998, we issued a report on our evaluation of EDA's handling of its Hurricane Andrew assistance program. In particular, we examined EDA's process for selecting projects and its management and monitoring of the projects funded. We focused on issues related to the completion of these projects and, more important, on lessons learned from those activities. These findings provide valuable insight and guidance to direct EDA's actions in response to Hurricane Katrina.

Before I discuss specific issues in that report, I'd like to note that in 1992, Congress appropriated about a billion dollars to various federal agencies under the Dire Emergency Supplemental Appropriations Act, including $80 million to EDA to provide disaster relief assistance. When we look at the more than $60 *billion* already appropriated for Hurricane Katrina relief, coupled with the likelihood of yet more funds being needed for Hurricane Rita relief and rebuilding, any lessons learned from our earlier report and the ongoing vigilance of inspectors general will be critical.

Much of the billion-dollar emergency appropriation for Hurricane Andrew was aimed at addressing the immediate needs of protecting life and property and providing food, shelter and other basic services. But Congress intended that the EDA monies fund projects for longer-term economic recovery and growth. Just as with the recent appropriations for Hurricane Katrina, few restrictions were placed on EDA's use of the disaster funds and the agency was instructed to "use all existing administrative flexibility to waive local match requirements and to expedite the delivery of assistance to communities." To further expedite EDA grant-making, Congress appropriated $5 million to supplement the agency's operating budget.

Between 1992 and 1995, EDA received Hurricane Andrew relief proposals requesting a total of more than $130 million, and the agency funded 28 projects totaling $50.9 million. EDA did a good job of quickly selecting the projects, and for the most part, chose projects that were both sound in concept and appeared responsive to the economic recovery needs of the area. However, there were serious problems with 9 projects that were late in starting and slow in being completed. These projects also tied up millions of dollars that could have been put to better use for other disaster recovery purposes.

The delayed construction projects had two common traits—purpose and location. Specifically, all but three were located outside the direct path of the hurricane and all nine were designed to mitigate or accommodate the out-migration of businesses or enhance or encourage tourism in areas affected by the storm, as opposed to repairing or replacing storm-damaged buildings and infrastructure. In contrast, all of the projects that were finished on time were located within the 20-mile path of the hurricane and were more traditional repair-and-replace public works projects. The location and purpose of the delayed projects made them less urgent than the others and therefore more vulnerable in part because they lacked sufficient local impetus to proceed on their own. These findings are key when we look at the scope of the area affected by Hurricane Katrina and the competing requests for assistance.

Our report highlighted a number of management issues that have relevance for current recovery efforts and can help ensure that taxpayer dollars spent on today's disasters go to the intended recipients; are used effectively, efficiently, and in a timely manner; and thus accelerate economic recovery. It is critical that agencies do not overlook the need to give close attention to shortcomings in project oversight in light of the monumental rebuilding effort required post-Hurricane Katrina. Officials must follow basic procedures to monitor projects, such as obtaining routine performance reports that notify the agency about delays and the reasons for them. For example, EDA requires grantees to submit quarterly status reports before receiving disbursements in order to protect the government's financial interest. These reports are the early warning system for advising the agency of a project in trouble. If officials recognize the symptoms of problem projects early on, they can promptly act to fix them, where possible, or terminate the award and redeploy the remaining funds. In addition, monitoring projects onsite is critical so that officials gain firsthand knowledge and can provide direct oversight of how funds are being expended.

PLANS FOR PREVENTING AND DETECTING UNAUTHORIZED ACTIVITIES

In the aftermath of as devastating an event as hurricane Katrina, there is a distinct tension between the desire to aid affected businesses, communities, and individuals as quickly as possible and the need to ensure that sufficient controls are in place to prevent desperately needed funds from being wasted. Inspectors general play a critical role in ensuring that federal funds designated for recovery are used wisely. To that end, my office has been working closely with Department of Commerce and DHS officials to identify all funds being spent by Commerce on Katrina-related activities.

I mentioned earlier that the Department has established internal controls to identify and monitor Katrina funding and expenditures. We plan to assess these financial and procurement controls before dollars are spent, and the Department's Chief Financial Officer has agreed to work closely with my office to monitor the effectiveness of these controls on a continuing basis.

Once expenditures are identified, my office will determine which ones are funding repair of Commerce buildings and equipment in the Gulf region and which are providing economic assistance to businesses, communities, and individuals affected by Katrina. We will evaluate how effectively these projects are progressing and whether they are in fact targeting the most critical needs.

At this point we have paid particular attention to the Department's decision to utilize procurement flexibilities made available in the aftermath of Katrina. The Department recently raised the spending ceiling for NOAA purchase card users to $15,000 for Katrina-related expenditures. In light of the well-publicized history of problems with federal employees' use of purchase cards and the related lessons learned, we know the importance of closely monitoring individual users for these cards. Likewise, the Department raised the simplified acquisition threshold from $100,000 to $250,000 post-Katrina, which again increases risks for fraud and misuse—problems we have noted in prior audits of this procurement method. We will actively monitor transactions impacted by these changes to ensure that only authorized personnel are involved, government funds are being used appropriately, and purchases clearly comply with applicable requirements.

With regard to economic assistance provided by Commerce bureaus such as EDA, we plan to monitor any instances where traditional financial assistance terms and conditions are bypassed. While we recognize the need for flexibility in the current environment, deviating from normal procedures governing such awards increases the risk of fraud, waste, and abuse. It is critical that appropriate controls are in place.

Similarly, while appropriate contract oversight is always important, given the procurement flexibilities the Department will be able to exercise, aggressive monitoring is essential. While we will not be able to audit all Katrina-related contracts and grants, my office will determine which activities seem most at risk and will focus our audit efforts on those projects.

CONCLUSION

The Department of Commerce plays a critical role in preparing for, responding to, and recovering from natural disasters such as Hurricane Katrina, and thus in promoting the economic well-being of the nation. The immense public support to aid victims and rebuild the Gulf region through large infusions of resources and expedited regulatory processes increases risks that taxpayer dollars will be misused. My office, in coordination with DHS and other agencies, will vigilantly oversee departmental programs, determine whether appropriate management controls and procedures are in place, and work to resolve any weaknesses we identify so that Congress can have confidence that tax dollars are spent as intended.

Mr. WHITFIELD. And thank you, Mr. Frazier, and at this time, I will recognize Mr. Feaster—which agency is Mr. Feaster with? The FCC. Thank you.

TESTIMONY OF H. WALKER FEASTER III

Mr. FEASTER. Thank you, Mr. Chairman. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to come before you today to discuss the FCC's plans for participation in Hurricane Katrina rebuilding activities and our plans to provide oversight of these activities.

The FCC has announced it will be using four existing support mechanisms of the Universal Service Fund to provide $211 million to Katrina recovery assistance, as follows.

The Low Income program will be used for evacuees and persons in affected areas without telephone service wireless handsets and a package of 300 minutes. The fund will also be used to provide support for reconnecting consumers as the area is rebuilt. The FCC has estimated this will amount to $51 million.

The Rural Health Care program will allow public and for-profit healthcare providers to apply for assistance with the cost of telecommunications services under relaxed participation requirements. The FCC has estimated this will amount to $28 million.

The E-rate program will be used to reconnect schools and libraries in the affected areas to telecommunication and network services. The FCC estimates a range from $96 million to $132 million in E-rate funds for the 600 schools and libraries hit by the hurricane.

The High Cost program will allow greater flexibility for telephone carriers to use high cost funds to prioritize facilities affected by Katrina.

I applaud the Commission's effort in the post-Katrina recovery, and I am supportive of all the agency has done to assist. However, I am mindful that in my role as Inspector General, I am responsible for ensuring that the relief efforts do not present unacceptable risks to the agency and the taxpayer's dollar. I would like to discuss my plans for oversight of the Katrina-related efforts.

The myriad of rule waivers and special temporary authorities the Commission has granted has only a small impact on audits conducted by my office. Our primary audit role in these functions is to ensure that adequate internal controls are in place and operating effectively to ensure regulatory compliance, and that financial cost accumulation and reporting are current, accurate, and complete. My financial statement audits for 2005 and 2006 are the best tools I have to make this assessment.

We have testified before this committee on three occasions on the special risks this program carries and my concerns about the Universal Service Fund. I will discuss the four parts of the USF, our efforts to provide oversight of the fund, and new concerns as a result of the Hurricane Katrina efforts.

The E-rate program has expended $10 billion since its inception in 1998. We have identified specific concerns about the E-rate program that will have a direct impact on the disaster assistance funding. These programmatic weaknesses will be compounded by the confusion of overworked school and library administrators trying to rebuild shattered information systems under less than ideal circumstances. Additionally, I fear these rule waivers or exemptions will be taken advantage of by unscrupulous E-rate service providers that Federal criminal investigations have turned up time and time again.

Our auditors will incorporate appropriate steps in the audit programs currently in use to ensure the Katrina rule waivers are considered in audit planning and fieldwork. On a less positive note, I do not have the resources that approach being adequate to provide effective oversight of the E-rate program. However, we will con-

tinue to work in close coordination with USAC internal auditors, independent auditors under contract to USAC, and other Federal auditors conducting E-rate audits.

Another large USF program is the High Cost program. The program provides support to telecommunications carriers to ensure that consumers in all regions of the United States have access to, and pay rates for telecommunications services that are reasonable. This program has averaged over $2.5 billion in annual expenditures, and my office is aware of what we need to expand in the area; however, we do not have the resources to establish an effective oversight program.

The Low Income program assists eligible lower income consumers to establish and maintain telephone service by discounting services provided. To the best of my knowledge, this support mechanism has not been used in the past to provide wireless handsets and free minutes of service in the past. I am not yet fully briefed on how the Commission intends to implement the intended hurricane relief, and I will give careful consideration as to what sort of oversight to bring to this unique solution. I anticipate, at a minimum, I will direct my staff to perform an audit of how eligibility for this help is determined and verified, and measures the Commission has taken.

I would like to make an observation about the overall risk to the USF as presented by the Katrina devastation. Since the inception of the E-rate program in 1998, over $184 million has been expended in Louisiana, and over $79 in New Orleans alone. As well as E-rate funds, the High Cost program has expended $550 million in the State of Louisiana since 1998. Rebuilding the shattered infrastructure is critical. Financial needs are huge and risk of misspent funds must be taken into account. This risk is certain to be impacted by errors on the part of public and private participants who are overworked and stressed. Further, you can be sure this level of funding will attract the less honest service providers to the area who might hope to take advantage of additional funds being expended.

This concludes my testimony. I will be happy to answer any questions.

[The prepared statement of H. Walker Feaster III follows:]

PREPARED STATEMENT OF H. WALKER FEASTER III, INSPECTOR GENERAL, FEDERAL COMMUNICATIONS COMMISSION

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to come before you today to discuss the FCC's plans for participation in Hurricane Katrina rebuilding activities and our plans to provide oversight of these activities. Since the majority of the actual funds used by the FCC in the recovery efforts will come from the Universal Service Fund (USF), I will place emphasis on the plans to use the USF in the rebuilding efforts. However, I will also discuss other FCC efforts and discuss the overall risks that I believe we must consider in our oversight of Katrina-related activities.

FCC USE OF THE USF IN KATRINA REBUILDING SUPPORT

The Commission took the unprecedented step of holding an Open Meeting in Atlanta, Georgia on September 15, 2005. At this meeting, the Commission announced that it would use $211 million of funds from the USF to assist recovery efforts in the disaster area. The FCC will use the four existing support mechanisms of the USF to provide this assistance, as follows:

- The Low Income program will be used to provide evacuees and persons in the affected areas still without telephone service wireless handsets and a package of 300 minutes. This fund will also be used to provide support for reconnecting consumers as the area is rebuilt. The FCC has estimated this will amount to $51 million of Low Income support.
- The Rural Health Care program will allow public and for-profit health care providers to apply for assistance with the cost of telecommunications services under relaxed participation requirements. The FCC has estimated this will amount to $28 million of Rural Health Care support.
- The Schools and Libraries program (or E-rate) will be used to reconnect schools and libraries in the affected areas to telecommunication and network services. Using a variety of program rule waivers, the FCC will be able to authorize an amount estimated to range from $96 million to $132 million in E-rate funds for the 600 schools and libraries hit by the hurricane.
- The High Cost program will allow greater flexibility for telephone carriers to use high cost funds to prioritize facilities affected by Katrina.

OTHER REBUILDING SUPPORT BY THE FCC

The Commission has also announced the creation of a new Bureau—the Public Safety/Homeland Security Bureau. This Bureau will be comprised of existing functions currently in other FCC bureaus and offices and will have responsibility for the FCC's public safety, national security, disaster management programs.

Additionally, the Commission has undertaken several actions that allow the telecommunications industry regulatory flexibility in rebuilding efforts. Through the issuance of temporary rule waivers and special temporary authorities, the FCC is assisting in re-establishing emergency communications, providing assistance and relief to television and radio stations in getting back on the air, extending regulatory fee payments, extending filing due dates for licensees, and performing a host of activities to contribute to the recovery efforts. The FCC is coordinating with the Federal Emergency Management Agency and the National Communications System, as well as state and local governments and organizations to communicate the FCC's flexibility in eligibility standards and processes to aid in the Hurricane Katrina relief efforts.

AUDIT OVERSIGHT OF THE FCC'S KATRINA-RELATED EFFORTS

I applaud the Commission's efforts to be a positive force in the post-Katrina recovery, and I am supportive of all that this agency can do to assist. However, I am mindful that in my role as Inspector general, I am responsible for ensuring that these relief efforts do not present unacceptable risks to the agency and the taxpayer's dollar. I would like to discuss my plans for oversight of the FCC's Katrina-related efforts.

The myriad of rule waivers and special temporary authorities the Commission is granting has only a small impact on audits conducted by my office. I have not received any indication from agency management that, insofar as appropriated funding goes, any additional costs or requests for budgetary resources are contemplated for Katrina-related efforts. The primary cost to the FCC appears to be in terms of personnel costs such as overtime and travel. Our primary audit role in these functions is to ensure that adequate internal controls are in place and operating effectively to ensure regulatory compliance and that financial cost accumulation and reporting are current, accurate and complete. While the reorganization and formulation of a new bureau carries a higher level of risk, our concerns are the same—are the financial and operational controls in place to ensure that the agency's programs and functions are operating in an effective and efficient manner and in compliance with applicable laws and regulations. My financial statement audits for FY 2005 and 2006 are the best tools I have available to make this assessment. My staff is coordinating with our contracted independent public auditors to ensure that testing under our financial statement audit will address any concerns.

OIG OVERSIGHT OF THE USF KATRINA FUNDING

The FCC's financial contribution to the recovery is via the USF. In regards to the USF, this Subcommittee is aware of the special risks this program carries and my concerns about the fund. We have testified before this Subcommittee on three occasions, as well as other House and Senate committees, about concerns regarding the E-rate program, one of the two large USF mechanisms. I will summarize the four parts of the USF, our efforts to provide oversight of the fund, and new concerns as a result of the Hurricane Katrina efforts.

The FCC has issued an Order on September 21, 2005, that details several rule waivers for USF recipients in the hurricane-affected area. This Order allows State Commissions, carriers, and program beneficiaries to postpone filing certain USF forms, payments and data for a period of up to one hundred and fifty (150) days. At this time I have not been advised as to whether these waivers represent all of the actions needed to implement the Commission's USF Katrina relief or if more rule waivers will be forthcoming.

Due to materiality and our assessment of audit risk, we have focused much of our attention on the USF mechanism for funding telecommunications and information services for schools and libraries, also known as the "Schools and Libraries Program" or the "E-rate" program. The E-rate program has expended $10 billion since its inception in 1998. Our involvement in E-rate audits and investigations has highlighted numerous concerns with this program. The Commission has announced that they will distribute additional funds in the hurricane affected areas by setting all schools and libraries in the disaster area at the 90% level of support, which is the highest level of support available under the program. They will open a new 2005 funding window for schools and libraries in the affected areas to request new or additional support, and they will allow schools and libraries serving evacuees to amend their 2005 funding to account for increased student populations.

We have specific concerns about the E-rate program that will have a direct impact the disaster assistance funding. For example, we have cited a lack of clarity in the program's rules as being a catalyst for both inadvertent errors and deliberate waste and abuse. We have also described weaknesses in the competitive procurement requirements used to purchase E-rate goods and services and the ineffective use of purchased goods and services. These kinds of programmatic weaknesses will be compounded by the confusion of overworked school and library administrators trying to rebuild shattered information systems under less than ideal circumstances. Additionally, I fear these rule waivers or exemptions will be taken advantage of by unscrupulous E-rate service providers that federal criminal investigations have turned up time and again.

Fortunately, we have an aggressive audit plan for E-rate beneficiary compliance in place, and our auditors will incorporate appropriate steps in the audit work programs currently in use to ensure the Katrina rule waivers are considered in audit planning and fieldwork. On a less positive note, I do not have resources that approach being adequate to provide effective oversight of the E-rate program. However, we have worked and will continue to work in close coordination with USAC internal auditors, independent auditors under contract to USAC, and other federal auditors conducting E-rate audits under interagency memoranda of understanding. We will ensure that the special risks that the FCC's proposed rules bring are addressed in the conduct of future audits.

Because we have focused our limited resources on the E-rate program, we have not been able to devote a great deal of attention to the other USF mechanisms. The other large USF program is the High Cost program. This program provides support to telecommunication carriers to ensure that consumers in all regions of the United States have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. This program has averaged over $2.5 billion in annual expenditures and my office is aware that we need to expand our oversight in this area. However, we have not had the resources to establish an effective oversight program. In the breakdown of the $211 million of Katrina relief there does not appear to be additional funds contemplated for High Cost and I believe that the primary effect of the Katrina support will be the redistribution of existing support. At the present, we are assessing risks in the High Cost program in anticipation of being able to institute an audit program in the future and will ensure our plans to address any considerations brought by the Katrina relief.

I find the proposed Low Income Katrina-related support very interesting. The Low Income program assists eligible low-income consumers to establish and maintain telephone service by discounting services provided by local telephone companies. The USF reimburses the telephone companies for the discounts under the Low Income program. This program provided $759 million in support in 2004 and is considered to be of lower audit risk than the E-rate or High Cost programs. To the best of my knowledge, this support mechanism has not been used in the past to provide wireless handsets and free minutes of service in the past. I am not yet fully briefed on how the Commission intends to implement the intended hurricane relief, and I will give careful consideration as to what sort of oversight to bring to this unique solution. I anticipate that, at a minimum, I will direct my staff to perform an audit of how eligibility for this help is determined and verified and measures the Commis-

sion has taken to ensure the products provided are in the hands of the people who need the help.

The Rural Health Care program is the smallest USF program, having disbursed $38 million since 1999. The FCC's proposed $28 million of disaster assistance to emergency health care providers in the affected region will represent a dramatic increase in Rural Health Care expenditures. This is being accomplished by increasing the discount rate, which is the portion of costs covered by the support mechanism to 50% for qualified providers in the affected areas and for health care providers providing assistance to disaster victims nationwide. Additionally, the FCC will allow health care providers to file new or amended applications for funds in the current year. We are still assessing the requirement for oversight represented by the additional disaster relief funds.

I would like to make an observation about the overall risk to the USF as represented by the Katrina devastation. The Commission is making a commendable effort to provide extra relief to the area in the form of rule waivers and temporary exemptions. However, this effort pales in consideration of the tremendous loss in the networking and telecommunications capability in the schools, libraries and homes of Louisiana, Mississippi, and other devastated areas. Since the inception of the E-rate program in 1998, over $184 million has been expended in Louisiana, and over $79 million in New Orleans alone. As well as E-rate funds, the High Cost program has expended $555million in the state of Louisiana since 1998. Rebuilding the shattered infrastructure is critical. While the FCC's authorization of additional funding will go a long way in restoring these services for the citizens affected by Hurricane Katrina, the area will require a higher level of support for years before it reaches a level of technological capability that it had before the hurricane. The financial needs will be huge and the risk of misspent funds must be taken into account. This risk is certain ti be impacted by errors on the part of public and private participants who are overworked and stressed. Further, you can be sure this level of funding will attract the less honest service providers to the area who might hope to take advantage of the additional funds being expended under relaxed rules.

CONCLUSION

The Office of Inspector General has been and remains committed to meeting our responsibility for providing effective independent oversight of the USF. My office will dedicate as much of our resources as possible to ensure that the extra measure of support provided by the Commission is utilized in a manner that best benefits the people whose lives have been so horribly uprooted by Hurricane Katrina.

Thank you. I will be happy to answer any of your questions.

Mr. WHITFIELD. Mr. Feaster, thank you, and thank all of you for your opening statements. I want to welcome all of the members of the Oversight and Investigations Subcommittee. As I explained before they arrived, we do have a markup going on downstairs on an energy bill relating to refineries, and so they are displaying great enthusiasm by being in both places at once, so I want to thank all of you for joining us.

I notice that since 1974, there has been a total of $83, $84 billion appropriated for the Disaster Relief Fund in all those years, and as a result of Katrina, Congress has appropriated $62.3 billion just for Katrina, so that takes up the vast amount of money that has gone through the Disaster Relief Fund. Now, in his opening statement, Mr. Inslee made a comment, and I may not get this exactly correct, but he raised the question, is anyone really in control here? Does anyone have ultimate responsibility in the coordinating of this effort of oversight and investigation, of watching to prevent waste, fraud, and abuse?

And Mr. Skinner, I would ask you the question. Is that valid criticism to say there is no one central place that has authority to really be in control of this effort?

Mr. SKINNER. No, I don't believe it is a valid criticism. Quite frankly, I think the OIG community, collectively, is well equipped to provide that oversight by working through the PCIE Roundtable

for Homeland Security, which I chair. I think we have mechanisms in place to coordinate those activities, so that we can work together to ensure that there are no gaps in oversight, and also, to ensure that there is no duplication or unnecessary expense in providing oversight of those funds.

Mr. WHITFIELD. And is that through the President's Council of Integrity, is there——

Mr. SKINNER. Yes, sir. Yes, Mr. Chairman.

Mr. WHITFIELD. [continuing] the coordination takes place? And do all of the Inspectors General have representatives that attend the meetings of that group?

Mr. SKINNER. Yes, we do. Currently, we have approximately 13 members participating with regards to Katrina operations alone. Like I said earlier, with those 13 IGs, we can provide oversight for approximately 99 percent of all the funds that have been appropriated to date with regards to Katrina operations.

Mr. WHITFIELD. Now, of the $62.3 billion that have been appropriated, how much has been spent so far?

Mr. SKINNER. Approximately about $18 to $19, or $20—it changes daily. We are spending money at a rapid pace, but approximately $18 to $19 billion has, in fact, been obligated, and the outlays are in and around the $4 billion range, that is, where the bills have come in, and we have paid bills against those obligations.

Mr. WHITFIELD. Do you serve as the Chairman of the President's Council of Integrity?

Mr. SKINNER. No, Mr. Chairman. That is Greg Friedman, who is to my right, who has asked me to take the lead on or to set up a Roundtable for Homeland Security initiatives.

Mr. WHITFIELD. Okay.

Mr. SKINNER. From that Roundtable, we have brought together those individuals that have oversight or have involvement in disaster operations.

Mr. WHITFIELD. So Mr. Friedman, you serve as the Chairman, then.

Mr. FRIEDMAN. Let me just clarify, if I can. There is a President's Council on Integrity and Efficiency, which is the Presidentially appointed, Senate-confirmed Council, and I am the Vice Chair of that Council. The Chair, is by virtue of the Executive Order which established us, the Deputy Director of OMB. There is an Executive Council on Integrity and Efficiency, and we work hand in glove together. Those are the agency-appointed Inspectors General. In total there are 57 IGs within the Federal IG community.

Mr. WHITFIELD. Now, Mr. Skinner mentioned the amount of money that has already been obligated, which is a quickly changing figure, but how do you actually go about tracking that on a daily basis?

Mr. FRIEDMAN. Well, as Chair of the PCIE Homeland Security Roundtable, let me ask Mr. Skinner to address that question, if you don't mind.

Mr. SKINNER. Those funds are being currently tracked through FEMA's accounting systems. We have people embedded over there at FEMA, at their FEMA headquarters, where we monitor those expenditures, and we obtain daily reports as to the progress that we are making with regards to our financial activities.

Mr. WHITFIELD. Now, we hear a lot of criticism about awarding contracts without competitive bidding. What is the rationale for that, and is some of the criticism valid?

Mr. SKINNER. It may or may not be. That is something that we are giving a sense of high priority to. The basis for these no-bid contracts is essentially to protect property, save lives, things of that nature, in an emergency environment. That is, if we had obtained competition, we run the risk of reducing our ability, or reducing the government's ability to respond in a timely manner to protect property and save lives. What that we are doing, collectively, in the OIG community, in the DHS OIG, is stepping back and looking at all of the no-bid, and even those limited competition contracts. The questions that we are going to be asking, as I said in my statement, is there evidence to support the need for a no-bid contract? We want to look at the criteria that you use to select a particular vendor. We want to look at the qualifications of that vendor. We want to look at the value, the pricing, of those no-bid contracts, to ensure that they are reasonable and fair. And then, as the bills come in, we also want to take a very close look to ensure that the product or services being delivered has, in fact, been delivered as promised.

Mr. WHITFIELD. I noticed in a recent New York Times article you had mentioned that you were apprehensive about these kinds of contracts, and it is easy to be—you can find a lot of things wrong with it—but when you are trying to respond in a timely fashion, and quickly, in emergencies, you do have this tension between the possibility of making a lot of mistakes and spending money incorrectly, versus the need to act speedily, so you are trying to balance it out, I am sure.

Mr. SKINNER. That is correct. That is why I am not willing to make a blanket statement that all no-bid, or limited competition contracts are bad. In many circumstances, I have been involved with FEMA disaster operations since 1991, and I know, oftentimes, that that is the only alternative we have available to us, we the Federal Government, to get support and services to the people in a timely manner. But nonetheless, that said, by using no-bid contracts, we do increase our vulnerability for waste. And that is what we want to take a very, very close look at.

Mr. WHITFIELD. Now, in May of this year, your office completed an audit of certain FEMA programs as related to Hurricane Frances in the Miami-Dade County area, and in there, you talked about some real problem areas, and I would just like to walk you through several of your findings, and ask you to tell us what has changed, from your perspective, to make certain that Katrina funds don't meet a similar fate, recognizing that by the nature of the disaster, mistakes are going to be made, but trying to minimize them.

One of the things you point out was that no provisions existed for inspectors to recuse themselves from inspections that may present possible conflicts of interest.

Mr. SKINNER. That is correct, and FEMA has advised us that they have tightened those controls, but we have not yet validated them. In fact, that is what we will be doing, retesting those controls, as we walk through Katrina and Rita operations.

Mr. WHITFIELD. Okay.

Mr. SKINNER. We have embedded people at the National Service Processing Center within FEMA. We have embedded people at the Disaster Finance Center. And we will be looking to see if those controls have, in fact, been put in place. And their response to our report was just issued this past spring or summer, I believe. FEMA recognized, yes, we do need to tighten our controls, and yes, we intend to tighten our controls. Have they, in fact, been tightened? Our current oversight will validate that.

Mr. WHITFIELD. So that is one area, we don't have a conclusive answer on that.

Mr. SKINNER. No, we don't, at this point.

Mr. WHITFIELD. All right. No. 2, FEMA designated Miami-Dade eligible for individual assistance programs without a proper preliminary damage assessment.

Mr. SKINNER. That is correct. It is my understanding from Katrina that has, in fact, been corrected. It was very obvious, in many of the counties and communities, that there was wholesale devastation, and therefore, just a flyover will demonstrate that a declaration was supportable in those outlying counties, as we go north in Mississippi, Alabama. I believe in Alabama, we only declared four counties as a result of the changed procedures, and the same holds true in Texas and Louisiana. They did do preliminary damage assessments to validate whether those outside of harm's way were, in fact, entitled to be included in the declaration.

Mr. WHITFIELD. I would like to ask—my time is running out. Mr. Frazier, I want to ask you a question. I notice in your testimony you referred to, back in Hurricane Andrew, that EDA received requests for $130 million for various projects, that the agency funded 28 projects for a total of $50 million. But then, you pointed out that there were serious problems with nine out of 28 of those projects. They were slow in getting started. They were slow in being completed, and it sounded like those nine out of 28 projects really did not—you were not satisfied with the results of those projects at all. Would you elaborate on that for me?

Mr. FRAZIER. Yes, Mr. Chairman. Definitely, we were very disappointed, because one of the things that we concluded was that those funds could have been redeployed. One of the problems that we saw was that it is not good enough just to put the money out there. EDA did a great job of getting the money out there, but then, you have to put people there to make sure that the contractors and the grantees are living up to the terms and conditions of those projects.

In the process, we found that they gave projects to people who didn't really know what they were doing. When they did that, those projects were dismal failures. When they gave them to people that knew what they were doing, who had a track record, and were in areas that they had the expertise, we didn't see those problems. But, in the haste to get the money out, often there was very little followup, very little monitoring. And in fact, 5 years after the hurricane, some of the funds still hadn't been spent. They were still sitting there un-obligated. And again, you saw millions of dollars that just sat idle during the period when they could have been redeployed.

Mr. WHITFIELD. And so do you think there has been any significant changes that would prevent that from happening this time, or——

Mr. FRAZIER. Yes, one of the things is, that you have different people there, and I think that has a lot to do with it. One of the things that we have been constantly hammering the Department about is the importance of monitoring and overseeing the projects—I mean on an ongoing basis. One of the problems is that a lot of the problems that we expect to see with Hurricane Katrina are things that we deal with every day, the problems associated with how well you do grants, how well you do contracts. If you don't do it fairly well on an ongoing basis, when you have an emergency or a catastrophe like this, you are not going to all of a sudden become experts at doing it.

At the Department, I can tell you when contracts come out of one particular agency, we don't have many problems with them. If they come out of another agency in the Department, we have real concerns, so a lot of it has to do with the infrastructure and the controls that are put in place, and that exist now. So we think the Department has made some significant strides since 1998, and in fact, we have spoken with the Acting Assistant Secretary to discuss that report, and he has assured us that these kinds of problems will not happen this time around.

Now, one of the concerns that we have is whether, when the money starts to come into the Department to fund grants, whether there will be adequate moneys given to the Department to do the monitoring and the oversight over the long term, or whether it will take the money, and just get it out there, and then, just walk away, and then, let these kinds of problems materialize.

Mr. WHITFIELD. Okay. My time has expired, so I recognize the gentleman from Washington, Mr. Inslee.

Mr. INSLEE. Thank you. I want to ask kind of a broad question to anyone who wants to tackle this. One of our concerns, my concern, is that we need a proactive effort to prevent waste, fraud, and abuse, rather than just a retrospective effort to deal with this issue. Many of us, myself included, believe we ought to have a Chief Financial Officer appointed in the structure of this to define proactively how to establish a financial prospective means to prevent this from happening in the first place, prevent occurrences such as having cruise ships folks that we could actually send people on 6 month cruises for half the price that we are paying to actually have people sit at the dock at these cruise ships for a company that I won't make any comments about.

So many of us feel that we need to get ahead of the curve here, and set a prospective structure that prevents overlap, wasteful spending, rather than just the function that you largely, and I think quite well, in almost all instances, do, which is a sort of pay and chase system. They pay, and then, you chase the defaulters and the folks who have made wasteful decisions. But we feel that, and I don't think I am alone, that we need a prospective system to handle this massive, perhaps $200 billion system across multiple states, to prevent, in part, politics from entering into those decisions as well, prospectively.

Can you give us comments about that? I know this idea has been floated about a Chief Financial Officer prospectively. Do you have any thoughts about that, about how to structure this system in advance, rather than just retrospectively, as you traditionally do? That is to anyone who has thoughts about that. Mr. Skinner?

Mr. SKINNER. Let me comment on that from an OIG perspective. We are not simply a pay-and-chase operation. We are involved very, very early in the operations here. We are looking now at internal controls and processes, and contracts and contract proposals as they are going through the system. We are involved upfront with applicant briefings, those that are receiving grants. We are doing pre-award reviews to make sure that they have the means to account for funds. We are cautioning them, and briefing them, on the things that could go wrong, so we are upfront trying to prevent poor or bad decisionmaking with regards to these expenditures. That is from an OIG perspective.

From a CFO perspective, you could probably dice that 120 different ways. You can get 30 CFOs in a room and they will probably come up with 30 different conclusions. I think that, most certainly, there needs to be a central place where the Congress, where the public, can go, and expect answers with regards to where we are spending our money. And so that there is some individual that is providing the broad oversight, to ensure there is no duplication or replication in benefits, for example. Could that be in a Department? Yes. Could it be separate, outside of the Department? Yes, it could go that way as well. But there most certainly needs to be broad oversight, someone within government. Could that be in OMB? Could that be in DHS, or down at FEMA? As long as the authority is there to provide that oversight and get cooperation from the others, the other departments that are participating in these relief efforts, it could work.

The important thing here is to remember that we are in the early stages of this recovery, reconstruction phase, the very, very early stages. The big recovery, reconstruction programs are yet to come, and the expenditures right now are generally being increased by DoD and DHS. As we go on through recovery, I know other departments and agencies are going to become very heavily involved, and I imagine that they will be receiving direct appropriations. Commerce, for example, with regards to recovery zones in the Gulf region. EPA, Energy, others will probably be receiving funds. Who is going to provide oversight from a governmentwide perspective?

Mr. INSLEE. Right. Right.

Mr. SKINNER. That authority needs to be clarified. I agree. It could exist in OMB, or within DHS. In any case, the President has to make it perfectly clear who has the authority to coordinate and provide oversight of all those funds.

Mr. INSLEE. Well, I appreciate your comments, because obviously, you may not know what is going on in Energy or Commerce or one of the others, and vice versa; they don't know what is going on in yours; so we are going to pursue that, and I hope that all the members of the panel will at least actively consider, and make suggestions, to the White House and the administration how to fashion such a centralized system, because this is such a massive effort.

And frankly, you know, these are obviously not totally analogous, but the abuses and failures we have seen in Iraq, we don't want to duplicate that at home, and having a centralized system, that these multiple agencies, I think, would be helpful. By the way, I noticed, you made reference to the Council of Integrity.

Mr. SKINNER. The President's Council of Integrity and Efficiency.

Mr. INSLEE. Yeah, is the Council, was the Council of Integrity responsible for the civilian contracting in Iraq?

Mr. SKINNER. No, sir.

Mr. INSLEE. Should they have been?

Mr. SKINNER. There was a special IG appointed for oversight in Iraq, and was given the authority to provide that oversight, so I don't think it was necessary that the PCIE, the President's Council on Integrity and Efficiency, actually become involved. I know that the IG for Iraq reconstruction coordinates very, very closely with the IG in the Department of State, and the IG at the Department of Defense.

The other departments, as far as I am aware, and please, gentlemen, ladies, correct me if I am wrong, probably did not have a large role play in the reconstruction effort.

Mr. INSLEE. And when was the special IG appointed? Was that at the beginning of the war, or in the middle, or——

Mr. GIMBLE. I think it was actually about 2 years ago, but the CPA, or Coalition Provisional Authority, had an IG position, and then, it became the special Iraqi IG. It was about 2½ years ago that they stood that up.

Mr. INSLEE. Would any of you others like to give your thoughts about if we are going to, as Mr. Skinner has talked about, increase our coordination and consolidation of this, on how to structure that?

Mr. GIMBLE. Could I make a comment?

Mr. INSLEE. Yes. Yeah, Mr. Gimble, yeah.

Mr. GIMBLE. I guess the first thing I would offer up is we do have oversight, if you are looking at it from the IG perspective. We have an extensive amount of oversight capabilities throughout the Federal Government, through both the PCIE, but let me just talk about how we do it in Defense.

If you recall from my testimony, we identified a number of audit agencies that are within the Department, and they are loosely fitted under the oversight of the DoD Inspector General. We have periodic meetings and coordinations with the other DoD agencies, and there is a consolidated semiannual report that all IGs provide to the Congress. I think we fairly effectively manage this oversight and our responsibility to avoid duplication through our coordinating efforts and consolidated reporting, at the end of every 6 months.

Now, going back to your point about what would have happened on the Iraqi contracting issues. The issue there, really, is more—the oversight, you are right, it comes in a lot of cases. However, I think you have to consider that in this case, it is a different issue. We are in the U.S., continental U.S., and I know at least in the Department of Defense, and I am sure all of the other departments, we have some fairly rigid contracting procedures. That is not to say that they won't be misused or circumvented or whatever. That is

the role that we have to go into. But the basic contracting structures are in place; they should avoid or minimize this kind of risk.

Mr. INSLEE. I want to ask you about specific—I am going to get a flavor of what really happens in the real world. Which of you approved this contract for this cruise ship at $1,275 a week? That is assuming that all of the beds are filled. It turned about a third of them will, so it actually cost the taxpayers about $3,500 a week, and you can go on a cruise for $599 a week. Which of you approved that in advance?

Mr. SKINNER. None of us approved that in advance, nor do we have the authority to approve something like that. That is the responsibility of the program offices to do that. Nonetheless, with regards to the cruise ship, that is something that concerns us as well, and we are looking at that, as we speak, in coordination with DoD IG. DoD IG will be looking at how did we let the contract, was it done properly? Are we getting the best value for our dollar? And we will be looking at it from an operational perspective, that is, do we continue to need these cruise ships? Are there better alternatives out there that we should be considering? So this is something we are currently looking at.

Mr. INSLEE. Right. And we hope that the Congress, in a bipartisan fashion, and you will help us have a way to prospectively make those decisions, rather than just retroactively. By the way, I want to just—we are all great Monday morning quarterbacks in Congress, and it is a traditional activity here, and we know that there were decisions made by people in emergency situations in responding to this, that in retrospect won't look like the best decisions, in a lot of circumstances.

We understand that there is intrinsically in an emergency response duplication, to some degree, but we understand the nature of that. For instance, in this cruise ship situation, I indicated there was angst because a lot of people didn't think anyone was going to get aboard. It turned out they were right.

And nonetheless, maybe those are judgment decisions. But we just want to make sure that political connections do not influence the Federal Government decisions. I believe that has already happened in this situation to some degree, because it happened in Iraq, and I am seeing it happen already, so we are looking forward to working with you in a way to make sure that does not occur. Thank you.

Mr. WHITFIELD. Thank you, Mr. Inslee. At this time, I will recognize Dr. Burgess for his 10 minutes.

Mr. BURGESS. Thank you, Mr. Chairman.

I guess, Mr. Skinner, if it is all right with you, let us stay with the Department of Homeland Security for a moment. There was a newspaper article right after we passed the second supplemental 2 weeks ago about the purchase of a number of trailers, I guess to house evacuees. It seems like the number given was 100,000, but I may not remember that exactly. The rumor was that those trailers had actually already been purchased before we voted on that appropriation. Can you shed any light on that?

Mr. SKINNER. They may have. Some of those may, in fact, have been purchased prior to the second supplemental. FEMA did have funds available in its disaster relief account to respond to unex-

pected or new disasters, and they may have turned to those funds to actually purchase some of those trailers. But I am not exactly sure on how much money, additional money, they needed to buy the additional trailers that you are referring to, right after the second supplemental.

Mr. BURGESS. Was any thought given to placing people in available rental units that are dispersed around the country? I don't think the country is at 100 percent occupancy. Trailers are expensive. They take some time to build, and then, there is always the question of what do you do with them? I mean what—and I haven't talked to the mayor of Baton Rouge, but I kind of figure he doesn't want 100,000 trailers to deal with right outside his city, but that may—I may be assuming something there.

But what about putting people in actual housing that is available?

Mr. SKINNER. That is an excellent point, and at that point in time, those decisions were being made independently by the independent FCOs in the states of Mississippi, Alabama, and Louisiana. Since then, the Department has realized that may not have been a wise decision. So although we may have committed to buy these things, we could also terminate that commitment through the convenience of the government. And what we have done is put a freeze on the delivery of many of those trailers. We are reassessing our housing policy on a more global scale: one, we must determine how many we could actually put into vacant condominiums or apartments, through the temporary housing program; two, we must identify those that may have been homeless, or have been living in public housing programs, and working with HUD—put those people into the HUD vouchering program. Then, three, those that are left, we have to work with them to determine whether they want to return to Louisiana or Mississippi, or do they want to stay where they are at? And if they want to stay where they are at, and there is not available housing, then we can make trailers available to them.

So what I think this will do is reduce considerably the number of trailers that we, in fact, thought we needed originally. That program, incidentally, I think was announced by Secretary Chertoff last Friday. However, it has yet to be implemented. They are still putting together the guidelines and coordinating with HHS and HUD on how the delivery will work, and the timing and the costs.

Mr. BURGESS. Yeah. It just calls into question the effective contracting practices that you talk about in your testimony, if we are rushing out and buying 100,000 trailers. Oftentimes, you don't get your best bargains that way.

And on the same, you know, it is going to sound like I am complaining about the expenditure on one side, but then, the slow pace of reimbursement. I have got cities in my district in North Texas, the city of Fort Worth, the city of Dallas, the city of Denton, that have been told by, I guess, both FEMA and the State that if you have people that you want to move out of shelters, put them in apartments or hotels or motels, pay the bills, and we will get back to you 1 day. And all of that discretionary money, $3 million, I believe, in the case of the city of Fort Worth, is now used, and it has been 4 weeks, and I have signed on to two big appropriations bills,

and taken a heck of a lot of heat about it at home. When does Fort Worth get their money?

Mr. SKINNER. That has historically been a problem oftentimes in certain programs, and this is one of them. The reason for the delay, in my opinion, is because that the Department had yet to work out its national housing policy, and until they had done that, which they had just done recently, like I said, they announced it Friday, and until they do that, they were reluctant to pay those bills.

It is my understanding that program is going to be rolled out this week, if not this week, then next week. Part of that program includes reimbursing states and locals for their costs associated with providing temporary housing through the public assistance program, and I would suspect that you will see the funds flow very shortly.

But the reason for the slowness is because we didn't have a global policy up front, or the policy that we did have was not the most efficient policy.

Mr. BURGESS. Well, we should have a policy up front. There should be something on the shelf that you can pull off. We are going to have another disaster, hopefully, never anything of this order of magnitude, but there will be some other disaster that we will have——

Mr. SKINNER. Yes.

Mr. BURGESS. [continuing] that will require multiple people to be displaced. I guess my concern is, back home, the Resource Connection spent all of its money to feed senior citizens next month to house evacuees this past month. They are out of money, and what are they going to feed their Meals on Wheels program, or how are they going to fund that in the month of October? I mean they don't run like we do, with the ability to run a big deficit. They need their bills paid, and I will just tell you, it is hard for me to go back home when I have the city of the Fort Worth, and the Resource Connection on one side saying you told us you would help us pay our bills if we did, basically, what I saw as the Federal Government's job, in many instances, and now, you are telling me the bureaucracy can't move fast enough to get these bills paid, and it is just a very uncomfortable position to be in. I am criticized for funding the money, and then, I am criticized because the money can't be spent. And I don't like that position, and I want that fixed. I don't know, Mr. Chairman, if there is anything that we can do at this committee level, but I will just tell you, it is making me crazy at home.

The other thing that just bothers us, and I don't know if anyone has already brought it up, but there was another story in the newspaper about a big lobbyist meeting over on the Senate side earlier this week, where they were promised $200 billion, and people were lining up. Does this fall in line with what you call the proactive procedures in your testimony?

Mr. SKINNER. No, Congressman. This is the first I have heard about a lobbyist meeting on the Senate side, or at the Senate, with regards to any activities associated with Katrina. With regards to the policy on housing, however, there is, in fact, a housing policy, but that policy, I think, was more directed to providing support for anywhere from 2,000, 5,000, to 10,000 people. This went way be-

yond the capability of FEMA, we are dealing with well over 150,000 people, if not more, scattered over 44 different States.

And I sympathize with you and your community on the reimbursement issues, and it is something that FEMA has to take a very, very close look at, and do a better job of reimbursing these cities, states, nonprofits, and others for costs that they have incurred.

Mr. BURGESS. What about the—now, you talk about a hotline that you have set up, the FEMA Hotline, during the height of the crisis, no one could get an answer. Are we going to do a better job on your hotline for reporting waste, fraud, and abuse?

Mr. SKINNER. Absolutely. I recognize those problems, and——

Mr. BURGESS. If I called that number right now, would I get a busy signal?

Mr. SKINNER. Probably not. I hope not. We have partnered with the DoD, and we are going to have that thing manned with live voices, at least 8 hours a day. If volume increases, we may increase that to 16 hours a day, and we will evaluate that on a weekly basis. But we have, in fact, partnered with DoD to ensure that——

Mr. BURGESS. Right.

Mr. SKINNER. [continuing] we have adequate coverage.

Mr. BURGESS. On the biweekly reports, are those going to come to the committee? Will those come to us as individual members? How are we going to receive those?

Mr. SKINNER. Those would come to the committee——

Mr. BURGESS. Okay. And would the committee——

Mr. SKINNER. [continuing] for distribution.

Mr. BURGESS. [continuing] then disburse that to us as individual members? Because I would like to be kept——

Mr. SKINNER. Yes.

Mr. BURGESS. [continuing] up to date on those biweekly reports.

Mr. SKINNER. You will.

Mr. BURGESS. Just one other point, and it came up this morning in the conference meeting. What about the issue of illegal dumping in the State of Louisiana? Are we watching that, both from DHS' standpoint, from EPA's standpoint? We don't want to create problems that we then have to come back and clean up at great expense in months and years to come.

Mr. SKINNER. May I comment on that as well? We are providing very, very close oversight of all debris removal operations, and if there is illegal dumping, that is something that we will address immediately. But debris removal operations has historically, after each disaster, has always presented a problem for FEMA and it has also been a concern of ours. As to the oversight that is provided to those operators out there, that is something that we most certainly would be looking at.

Mr. BURGESS. All right. In the few seconds I have left, let me go to HHS, and just very briefly, you must have already disbursed a ton of money in this effort. Is that a fair statement?

Mr. VENGRIN. Not quite yet, Congressman. Money is still rolling in, and much of the expedited waivers under Medicaid and TANF are just beginning. In terms of inflow of transfer moneys, in the mission from the homeland, HHS has just outlaid, I think, approximately $119 million. A lot of that was for the replenishment of the

stockpile. That typically goes under the VA contract, and also CDC contract. But the big game yet to be played is the Medicaid program, TANF, and programs of that sort.

Mr. BURGESS. Well, again, same deal. A lot of providers out there have really extended themselves. It has been 4 weeks. Many of them have worked without a day off, doctors and nurses without a day off, without a break. They need to be reimbursed. At the same time, I would like assurances that you have got someone onsite in those areas to make certain that those dollars are not disbursed inappropriately, because I can think of no greater tragedy for the people who have been displaced by the hurricane, the providers who stepped up and done the job that we have asked them to do, and then to have those funds stolen from them here at the last would be something I don't want to see.

Mr. VENGRIN. We absolutely will be looking at that.

Mr. BURGESS. Yes, sir. Thank you, Mr. Chairman. I will yield back.

Mr. WHITFIELD. Dr. Burgess, thank you. We need to run downstairs. They are having a vote in committee, and we are going to recess for about 5 minutes, while we vote downstairs, and we will be right back. So thank you for your patience. We will be right back.

[Brief recess.]

Mr. WHITFIELD. And I would recognize the gentleman from Michigan, who is the ranking member on this subcommittee, Mr. Stupak, for his 10 minutes of questions.

Mr. STUPAK. Thank you, Mr. Chairman, and I apologize again for not being able to be here. I have been downstairs at the hearing on subsidies and price gouging on gas prices, and we will be bouncing back and forth all day. We have a great, distinguished panel, and I wish I had been able to spend some more time with them before we're sent down for the next vote. It would have been great to do this hearing uninterrupted.

Let me ask a couple questions, and Mr. Skinner, you have been sort of answering a lot of questions, so how about if I start with you. The way I take it, each department, their Office of Inspector General is in charge of these contracts, and things like that. Right?

Mr. SKINNER. Correct.

Mr. STUPAK. But it is always after the fact. You release a contract, then you get a chance to see it? There is no pre-approval process?

Mr. SKINNER. No. In this case, here, we are trying to be as proactive as we can.

Mr. STUPAK. But still, a contract is let, then you have the right look at it, right?

Mr. SKINNER. No. We have the right to look at that contract before it is awarded, as well.

Mr. STUPAK. So you have a right to——

Mr. SKINNER. Oftentimes, we are asked to look at contracts before they are awarded, to ensure the integrity of the contractor or——

Mr. STUPAK. So the only way you can look at it before it is awarded is if you are asked?

Mr. SKINNER. No, Not always.

Mr. STUPAK. Well, I am trying to figure out who pre-approves this stuff? That is what I want to know.

Mr. SKINNER. Pre-approves?

Mr. STUPAK. Who pre-approves contracts? Who approves the contracts?

Mr. SKINNER. The contracting officer ——

Mr. STUPAK. In each department.

Mr. SKINNER. [continuing] is the only one authorized to approve or——

Mr. STUPAK. Okay.

Mr. SKINNER. [continuing] enter into a contract for the government.

Mr. STUPAK. So in this whole scheme of things, every department, and probably sub-department within the department, have contracting officers who must approve things. And they may or may not come to you to ask for your advice.

Mr. SKINNER. That is correct.

Mr. STUPAK. Okay. So like the cruise ship one, we don't know who did it, a contracting officer, right?

Mr. SKINNER. That is correct. Early on, and——

Mr. STUPAK. Would this be a contracting officer——

Mr. SKINNER. [continuing] in the disaster response——

Mr. STUPAK. [continuing] in the Department of Homeland Security?

Mr. SKINNER. I beg your pardon?

Mr. STUPAK. Would that be a contracting officer in the Department of Homeland Security?

Mr. SKINNER. Probably not. GSA is serving as our contracting officer——

Mr. STUPAK. GSA.

Mr. SKINNER. [continuing] for the disaster activities, or it could also have been, and I think in this case, it was actually the Corps of Engineers.

Mr. STUPAK. Well, see, the problem I am having is who is in charge here? You got eight different departments here represented, or seven different departments, and everybody has contracting officers underneath them, and people are approving these contracts. You don't know what contracts were approved in EPA, nor would I expect you to. Nor would EPA know for cleanup, for environmental cleanup, any contract you may approve or Army Corps may approve. So shouldn't there be someone who is in charge of this effort? Chief Financial Officer, Chief Contracting Officer, Chief of Police, anybody?

Mr. SKINNER. Well, as far as the Katrina operations, the primary contracting officials are either with DoD or with the GSA, through the mission assignment operations.

Mr. STUPAK. How many contracting officers are in DoD, then, who would have right to have contracts?

Mr. SKINNER. Tom, would you know the answer to that?

Mr. GIMBLE. I will have to get back with an answer on the number.

[The following was received for the record:]

Estimates indicate that there are over 6,000 warranted contracting officers currently within the Department of Defense. This data is based on the latest informa-

tion from the Defense Manpower Data Center database and updated input from the component/defense agency.

Mr. STUPAK. More than one, right?

Mr. GIMBLE. Oh, there are several, yes.

Mr. STUPAK. Okay. Several. Now, DSA, same thing, several?

Mr. GIMBLE. Correct. There are multiple contract officers throughout the government. But let me just say this.

Mr. STUPAK. Sure.

Mr. GIMBLE. The basic rules of the game governing contracts are the Federal Acquisition Regulations, so there is a framework that all contracting officers should be adhering to, so it is not like there is no policy or procedures out there, but each individual contracting officer is warranted up to a certain amount of what they are authorized to contract to.

Mr. STUPAK. Sure.

Mr. GIMBLE. And then, they are personally liable and responsible for that. No one else is——

Mr. STUPAK. They are personally liable?

Mr. GIMBLE. I believe so.

[The following was received for the record:]

Contracting officers can be held personally and financially liable for their actions. Criminal, civil penalties and administrative remedies apply to conduct that violates such requirements as those identified in the standards of Conduct (FAR 3.101), the Procurement Act (FAR 3.104 and 41 U.S.C. 423) and the Antideficiency Act (Title 31, U.S Code).

Mr. STUPAK. Well, then answer me this question, because I have been on this committee for 10 years, and we have gone through this a million times. It seems like credit cards, everyone likes to abuse the heck out of their government credit cards. Who approved to increase the limits for purchase on government credit cards from $2,500 to $250,000?

Mr. GIMBLE. I am not exactly sure who did that.

Mr. SKINNER. That was done through the supplemental appropriation process, with stipulations that——

Mr. STUPAK. So it was in——

Mr. SKINNER. [continuing] it was—GSA——

Mr. STUPAK. [continuing] the bill that Congress voted on, that——

Mr. SKINNER. Yes.

Mr. STUPAK. [continuing] we would increase it?

Mr. SKINNER. That is correct. And it is my understanding, and I believe that there are also stipulations on how that authority could be used. GSA was required to issue guidelines to ensure that——

Mr. STUPAK. Okay. So——

Mr. SKINNER. [continuing] there were controls. Those guidelines have never been issued, so no one is actually, in fact, using that authority at this point in time. Under emergency——

Mr. STUPAK. Well, then, will your department put some controls on this credit card?

Mr. SKINNER. Absolutely. At GSA, we are prepared, I know, we have met with the procurement officials within DHS, and——

Mr. STUPAK. And if they——

Mr. SKINNER. [continuing] our counterparts——

Mr. STUPAK. [continuing] go over, they will be——
Mr. SKINNER. [continuing] as well.
Mr. STUPAK. And if the holder of that credit card goes over, that person will be personally responsible?
Mr. SKINNER. That is correct. And there are controls on how they can use those cards. Right now, those limits are set at $15,000, not $250,000, and there——
Mr. STUPAK. Sir, with all due respect——
Mr. SKINNER. [continuing] are multiple approvals——
Mr. STUPAK. With all due respect, I have sat here for 10 years and listened to how these controls we have on credit cards, and all the time, if there was a place they abused the hell out of things, it is the credit cards, and I was just shocked to read that, that it was from $2,500 to $250,000. And so that is what I am concerned about. And do you feel we need someone in charge, like a czar, or a Chief Operating Officer, or do you like the process we have got now?
Mr. SKINNER. Right now, I would like to focus on the OIGs' oversight role.
Mr. STUPAK. Sure.
Mr. SKINNER. And I most certainly believe that we are now well equipped, well positioned, to provide that oversight, not only——
Mr. STUPAK. But only within your department. Only within your department.
Mr. SKINNER. We can coordinate——
Mr. STUPAK. How?
Mr. SKINNER. [continuing] through the PCIE, the President's Council on Integrity and Efficiency, and through the Homeland Security Roundtable.
Mr. STUPAK. The President's Council on Integrity Fitness, you said?
Mr. SKINNER. Efficiency.
Mr. STUPAK. Efficiency, I am sorry.
Mr. SKINNER. The President's Council on Integrity and Efficiency.
Mr. STUPAK. Is that appointed? Is that an appointed position?
Mr. SKINNER. That is established by Executive Order, and it is co-chaired by the IG from the Department of Energy——
Mr. STUPAK. Will they be held accountable, personally liable, if things go awry on these contracts?
Mr. SKINNER. No, not personally liable. The contract——
Mr. STUPAK. Well, what good is it to have a council, if no one is going to be held accountable?
Mr. SKINNER. The contracting officers will be held accountable.
Mr. STUPAK. Contracting officers, okay.
Mr. SKINNER. Yes.
Mr. STUPAK. What would happen to the contracting officers, then? Lose their job, or something like that?
Mr. SKINNER. If there is abuse, yes. Well, there could be criminal penalties, civil penalties, or——
Mr. STUPAK. Will this Council——
Mr. SKINNER. [continuing] administrative penalties.
Mr. STUPAK. Will this Council review contracts before they are let?

Mr. SKINNER. To the extent we can, our approach right now is we are reviewing the internal control processes over procurement to ensure that those processes are compliant with the FAR, and they have the appropriate internal controls, checks and balances, so that abuses cannot happen. If we find gaps, we are going to recommend immediately——

Mr. STUPAK. These controls——

Mr. SKINNER. [continuing] they be closed.

Mr. STUPAK. Do you have any kind of data base that will have all the purchases listed, or each contract let, so all your AGs can have access to it? Do you have——

Mr. SKINNER. Yes.

Mr. STUPAK. [continuing] a central data base?

Mr. SKINNER. Yes. That is the first thing we do, is——

Mr. STUPAK. Is that up and running now?

Mr. SKINNER. [continuing] develop an—we are in the process of developing an inventory of all contracts let, for example, under DHS, and each——

Mr. STUPAK. And this is across——

Mr. SKINNER. [continuing] department——

Mr. STUPAK. [continuing] all the agencies, then?

Mr. SKINNER. Yes, each of those that have received——

Mr. STUPAK. And these contracting officers will punch into it, so we all know what is going on?

Mr. SKINNER. Well, these contracting officers do—already punch into this system. I mean that is how they track their——

Mr. STUPAK. It is all going to be completely accessible.

Mr. SKINNER. I beg your——

Mr. STUPAK. It will be accessible to everybody? They can key in all these contracting officers for——

Mr. SKINNER. I can't say they are going to be accessible to everybody.

Mr. STUPAK. Yes.

Mr. SKINNER. But they will be——

Mr. STUPAK. Wouldn't that be helpful if everybody was accessible to this data base, so we know what is being awarded, so we don't have duplication and waste?

Mr. SKINNER. [continuing] accessible when? You have to define for everybody, Mr. Congressman.

Mr. STUPAK. Well, so your contracting officers, all your OIGs.

Mr. SKINNER. Yes, that will be——

Mr. STUPAK. And the contracting officers.

Mr. SKINNER. [continuing] made accessible to us, yes.

Mr. STUPAK. To us? OIGs?

Mr. SKINNER. The OIGs, yes.

Mr. STUPAK. Okay. But not the contracting officers.

Mr. SKINNER. Yes, of course, they are accessible to them. And——

Mr. STUPAK. Okay.

Mr. SKINNER. As well as the officials responsible for managing those contracting officers.

Mr. STUPAK. Do you think we should slow down some this—letting these contracts, until you have this central data base established, until there is plan for recovery? I have a little bit of a prob-

lem putting all this money in the Army Corps to rebuild some levees that breached, so why are we rebuilding the things that breached? Shouldn't we have people look at it, and get a strategic plan on how we should redo the levee system in New Orleans, so we don't have this problem again, or are we just going to put money at it, and let them build on a system that didn't hold up.

Mr. SKINNER. Well, I don't think we should be slowing down as far as providing support in stopping the canal breaches at this point in time.

Mr. STUPAK. I agree.

Mr. SKINNER. But as far as——

Mr. STUPAK. Stop the flow of the water.

Mr. SKINNER. [continuing] long term, as far as——

Mr. STUPAK. [continuing] the water——

Mr. SKINNER. [continuing] long term planning, yes, I——

Mr. STUPAK. Recovery. But all——

Mr. SKINNER. [continuing] agree, and——

Mr. STUPAK. [continuing] these other contracts——

Mr. SKINNER. [continuing] the Department and the government needs to assess how we want to provide our long—or reconstruction effort—and how we want to provide——

Mr. STUPAK. Well, don't you think——

Mr. SKINNER. [continuing] recovery.

Mr. STUPAK. Things that are nonessential, they are not life threatening, don't you think we should slow down and get a plan, and say here is what we are going to do, because there is no strategic plan, right?

Mr. SKINNER. To our knowledge, there is no overall strategic plan. That is being developed right now. We are still in a response mode.

Mr. STUPAK. Right. Yeah, we are just feeling our way through this thing.

Mr. SKINNER. And we are going to be going into phase 2 of our operations, and that would be individual assistance, temporary housing——

Mr. STUPAK. Sure.

Mr. SKINNER. [continuing] and then phase 3 is the reconstruction and I believe, in fact——

Mr. STUPAK. See, we are reading——

Mr. SKINNER. [continuing] being those——

Mr. STUPAK. We are reading articles that people who blow the whistle, especially the 3 or 4 with the Army Corps, have been fired or let go, or have been given very difficult job, demoted, because they said things weren't going right. They shouldn't have done. And we are still trying to—don't have any plan, people are trying to watch the buck. Those who are watching the buck are being demoted, and things like that, so shouldn't we really slow things down a little bit, and make sure we know what we are doing, before we throw billions of more dollars out there?

Mr. SKINNER. As far as long-term reconstruction, there is no doubt we need to take a very close look at how do we want to approach these types of issues.

Mr. STUPAK. Let me ask you this, you know, and based on responses and again, I noticed a lot of questioning was focused to you

earlier, Mr. Skinner, it sounds like, or let me put it like this, would DHS be willing to become the CFO or the head agency to coordinate all this relief effort, which may go up to $200 billion?

Mr. SKINNER. You would have to ask DHS officials, but I would say, right now, I believe they do view themselves as the coordinator for all of this activity.

Mr. STUPAK. Well, then would you view yourself, then, as the lead coordinator of the IGs, then?

Mr. SKINNER. That is correct.

Mr. STUPAK. Okay. I say this respectfully, but the GAO report I read here about a week ago indicated that DHS, in its current status, or I should say, is at a high risk for effectiveness because its procurement activities have not achieved the level of sophistication and control that we expect. So my concern is if DHS is going to be the lead agency, DHS Office of Inspector General is going to be sort of like the CFO of $200 billion——

Mr. SKINNER. No, we would not be the CFO. We are——

Mr. STUPAK. Well, I thought you——

Mr. SKINNER. [continuing] not accountants.

Mr. STUPAK. [continuing] said earlier, you——

Mr. SKINNER. We are not the accountants. No, we provide the oversight to ensure that——

Mr. STUPAK. Okay. The oversight, but your procurement has not reached the level of sophistication and control that it should, according to GAO. So should we hand this off to some other agency?

Mr. SKINNER. DHS has come a long way since that report was issued. They have increased their resources considerably. Yes, they still have a long way to go to be referred to as a model procurement operation. But with the resources, I am confident that it is something they can do. It is also something that they would probably do in partnership with other Federal agencies, such as GSA——

Mr. STUPAK. Sure.

Mr. SKINNER. [continuing] for example.

Mr. STUPAK. Sure. And I heard Mr. Feaster say in the little bit of testimony I came in, he was—needed more funds to do some of this stuff, and it sounds like funds are lacking within the Department of OIGs to help us out here. I guess my concern is this: I think we need a plan, No. 1, which we don't have. No. 2, we need someone in charge, who is going to be accountable. And No. 3, if you don't have the authority to do that, should Congress then do that, and designate a czar or somebody who would be held responsible. Because I just really think that we are throwing a lot of money out there, you know, visions of this $2,000-debit card that turned out to be a little bit of a disaster when everybody was getting it. There was no accountability there. We want to react, and we want to help people, but at the same time, we just got to have some accountability and someone in charge.

Thank you. Sure. Go ahead.

Mr. SKINNER. Go ahead.

Ms. TINSLEY. I am afraid we are confusing managing this overall recovery and oversight, and those are by design different responsibilities.

Mr. STUPAK. I don't disagree with you, but all I want to know is, is there is a plan, who is in charge, who is accountable? I don't want a quagmire like we——

Ms. TINSLEY. Right.

Mr. STUPAK. [continuing] got going right now. And it is a mess out there. And I don't mean that disrespectful to anybody. But——

Ms. TINSLEY. And you have mentioned a couple times about a CFO to do this——

Mr. STUPAK. Sure.

Ms. TINSLEY. [continuing] and just like there is the President's Council on Integrity and Efficiency, that is coordinating on oversight, there is a CFO Council that is headed by OMB, and that might be the group that you would want to think about——

Mr. STUPAK. Maybe, but most of the thing——

Ms. TINSLEY. [continuing] as far as——

Mr. STUPAK. [continuing] I am hearing, it is DHS, Department of Homeland Security, and GSA, those are the two I am hearing right now. Maybe this Council should step forward and say we will be accountable, but I hope before they do any of this, they at least have a plan before we get going.

And excuse me a minute, I have got a vote downstairs——

Mr. WHITFIELD. Mr. Rabkin, Mr. Stupak had mentioned this GAO report, and would you like to make any comments about some of the issues that he raised?

Mr. RABKIN. Mr. Chairman, the GAO has been looking at the transformation of the Department of Homeland Security, as it was formed, and the movement of different component agencies into the Department, looking at the overall management issues, as well as the performance, and we put it on our high risk list, even before the Department was created, concerned about that transformation, and how coming together as a department might affect the ability of the individual components to carry out their missions.

Two-and-a-half years later, we are still concerned about that, and I agree with Mr. Skinner that the—in this case, we are talking about procurement and acquisition activities, that they have made progress, but they are still not at the level where we would consider them to be out of the woods, let us say.

Mr. WHITFIELD. Okay.

Mr. RABKIN. And we continue to monitor that, and we will do so as they carry out their functions with Hurricane Katrina.

Mr. WHITFIELD. Okay. Well, thank you. At this time, I will recognize Mr. Walden for his 10 minutes.

Mr. WALDEN. Thank you very much, Mr. Chairman.

Mr. Skinner, I have a question for you. Do you think Members of Congress should be held personally liable when these funds aren't right? We vote for this stuff, and give you this authority. I sort of wonder.

Mr. SKINNER. No comment.

Mr. WALDEN. Thank you. And I think we all are, in effect, liable, because we are responsible to our constituents, and I appreciate the work that all of you do in your IG roles. It is essential to our work here, to learn from you what works and what doesn't, and how we can get it right. And so I appreciate your testimony, your counsel, and the work you do with your folks within these agencies.

I want to go to this issue of the credit card that Mr. Stupak raised. Can you explain, based on what you have seen, why we would extend the credit limit increase from, what was it, $2,500 or $2,000, to a higher level, in an emergency?

Mr. SKINNER. Generally, after a disaster, the credit card levels are increased to, I believe, from $2,500 to $15,000.

Mr. WALDEN. Okay.

Mr. SKINNER. To allow for quick buys of supplies, things of that nature, to help us set up disaster service centers, disaster field offices, things of that nature. This is my first experience with having that level raised to $250,000. Although it has been raised to $250,000, that authority has not yet been exercised.

Mr. WALDEN. It has not, and that is because the guidelines have not been written yet?

Mr. SKINNER. Part of the stipulation was that GSA would issue regulations on how those credit cards, or the holders of those credit cards, would operate, and you are correct, those regulations have yet to be published.

Mr. WALDEN. And do you anticipate, in those situations, that such use at those levels would require more than one person to authorize?

Mr. SKINNER. No doubt. There is a whole series of internal controls that have to be imposed over the users of those credit cards. They are not going to go to everyone. They will simply go to those, to a very select few. There is documentation requirements to ensure that there is a demonstrated need. There will be supervisory approval, and there will be checks and balances. With regards to the OIG oversight of the use of those credit cards, we do have data mining capabilities, where we review the day to day use of those cards, and we intend to employ that software, regardless of whether it stays at $15,000, or goes to $250,000, so that we can monitor the use of those credit cards on a daily basis.

Mr. WALDEN. Good, because I concur with my colleague from Michigan, having been on this subcommittee for a couple of years now. We have seen evidence elsewhere in the government where credit card abuse has been a real problem, where things have been purchased that never should have been, and eventually, it seems like it gets uncovered, and people are eventually held accountable. But wherever we can prevent that, and certainly, various signoffs and chain of command, and review is——

Mr. SKINNER. Yes, and again, we are going to be providing oversight on a day-to-day basis, and we are going to make that known to all the users of those credit cards.

Mr. WALDEN. All right. Very good. And can you tell us, in some of the examples we are reading about in the news media and elsewhere, of potential contract abuses, what are the penalties that exist today, if you have a contractor that engages in some sort of fraudulent agreement, doesn't deliver the services, goes way over——

Mr. SKINNER. For false claims, yes, there are both criminal and civil penalties. Criminally, I think they could be subject to a $250,000 fine and 10 years imprisonment if convicted. If we could take this through civil court, we could get get treble damages for

false claims, or if it doesn't rise to that level, we could take administrative actions against the contractor. That is, debar them——

Mr. WALDEN. From being able to contract in the future.

Mr. SKINNER. Discontinue the contract, and fines, things of that nature.

Mr. WALDEN. Do you need additional authority from the Congress to deal with the situation, because it is so unique, with Katrina and Rita? Are there any additional penalty needs that you have, or do you think the law is sufficient for——

Mr. SKINNER. No, I believe we cuttently have all the authorities that we need to do our job. We just need to implement these authorities.

Mr. WALDEN. Do you have adequate resources to provide the oversight, and if not, what do you need?

Mr. SKINNER. Currently, without tapping into the resources we have—and I am speaking for the Department of Homeland Security—without tapping into the resources that we have dedicated to other activities——

Mr. WALDEN. Right.

Mr. SKINNER. [continuing] providing oversight over the other $40 billion that is appropriated to the Department of Homeland Security on an annual basis. Yes, we will need additional resources. Congress has given us an additional $15 million to get us started——

Mr. WALDEN. On Inspectors General, right?

Mr. SKINNER. [continuing] for the Inspector General, so we, over the next 3 months, can hire about 40 people. Based on the size of this particular disaster, and the long-term recovery that is going to ensue, I would anticipate that we would probably need even additional funds and would need hire additional staff, to provide the adequate oversight that is going to be necessary.

Mr. WALDEN. And do you feel you have the ability, the authority, to request fully what you think you will need?

Mr. SKINNER. Yes.

Mr. WALDEN. Does anybody try and stop you from asking this?

Mr. SKINNER. Absolutely not. I could say the Department, from the top all the way down, has been very cooperative in working with us, and supporting any requests that we have made.

Mr. WALDEN. All right.

Mr. SKINNER. We have already made one request, and it came to Congress, and it was approved. We are at a process of working with the Department and OMB for additional funds, and everyone has been very cooperative and understanding as to what our requirements are.

Mr. WALDEN. So I am sure you can imagine the lights next time could be even brighter than this time, with the passage of time, in terms of us holding you all accountable, because we get held accountable.

Mr. SKINNER. Sure.

Mr. WALDEN. We get a lot of questions on this level of money, and how it is being spent, and all of that.

Mr. Feaster, I want to go to some of the communications issues, if I could, and I don't know to what level you have been involved. In terms of what happened during the emergency, what happens

now, can you describe for me, in terms of the FCC's response during the emergency, and what sort of equipment needs may be necessary, how the systems work? Do you look at all of that?

Mr. FEASTER. We do, but we haven't done that yet. But basically, the regulatory flexibility offered to the TV and radio stations was very flexible, and I haven't seen or heard any negative comments on what happened. I think the FCC reacted in a very positive manner, establishing taskforces and making people available on a 7-day, 24-hour basis.

Mr. WALDEN. Will you be evaluating how the Emergency Alert System worked, both on broadcast and cable? Does your office do that?

Mr. FEASTER. Yes, we do that. As I said earlier, we have very limited resources. Unlike my colleagues down there, my staff is 10 people, and we are looking at many more people than that——

Mr. WALDEN. We have Inspector jealousy here, is that—four star, and you are the one star.

Mr. FEASTER. A million dollars is big money to me.

Mr. WALDEN. Yes.

Mr. FEASTER. But we will try to use contract funds to do the necessary, appropriate audits, and we can certainly put that on our list of things to do.

Mr. WALDEN. Because I know one of the issues was basically a lot of the broadcast facilities went dark.

Mr. FEASTER. Yes, sir.

Mr. WALDEN. Either their towers went down, or they ran out of emergency fuel, or electricity, and there were a few stations that were able to stay on the air, and continue to communicate, but——

Mr. FEASTER. And it had always been hoped, when I was involved, before I was Inspector General, that backup power would work, and keep them on the air, but it was just too much, too long.

Mr. WALDEN. Yeah. Yeah. And can you describe the situation today, in terms of the communications structure that is operating, and the FCC's response? I know there is some discussion I have heard about, and I think you reference in your testimony, about perhaps dipping into the E-rate moneys to do various things.

Mr. FEASTER. Yes. That situation, they are basically planning to spend about approximately $211 million out of E-rate funds from the USF fund, for various programs, including High Cost, Low Income, and the E-rate—E-rate, used to rebuild the school's telecommunications infrastructure; the Rural Health Care, making services available to the various clinics, so that they can use telemedicine. The big one is from the High Cost—not the High Cost, but from the—excuse me, it is High Cost—cell phones, and 300 minutes of service that people have been without phone service can get their lives back and start moving ahead.

Mr. WALDEN. All right. Well, as you know, this subcommittee has done a lot of work on the E-rate fund, and we——

Mr. FEASTER. Yes, sir.

Mr. WALDEN. [continuing] found some abuses, in how all that process work, so I assume you are going to be looking very carefully at controls.

Mr. FEASTER. We will continue our oversight of that——

Mr. WALDEN. So we are not building like TV studios and things of that nature.

Mr. FEASTER. We are very much aware of that, and we will continue that.

Mr. WALDEN. And there may be some equipment still in a warehouse somewhere.

Mr. FEASTER. Out in Puerto Rico, I think.

Mr. WALDEN. Puerto Rico. You might be able to facilitate. Thank you, Mr. Chairman. Thank you, ladies and gentlemen, for your participation in this hearing.

Mr. WHITFIELD. Thank you, Mr. Walden. At this time, we will recognize Ms. Schakowsky for 10 minutes.

Ms. SCHAKOWSKY. Mr. Chairman, if I could, I would like to defer to Mr. Waxman, who just came in.

Mr. WHITFIELD. Okay. Go ahead, Mr. Waxman.

Mr. WAXMAN. Thank you, Ms. Schakowsky and Mr. Chairman.

Gentleman, and all of you, ladies. Looking to see what your name is. All of you Inspectors General, we are very pleased to have you here, and I want to tell you all I appreciate the goal that you have set out, providing oversight for the Gulf Coast recovery and reconstruction efforts. But unfortunately, we have been down this road before, and the record is not a good one. Twice in the last 5 years, the Bush Administration embarked on mammoth spending binges. The first was the frenzied and poorly planned award of huge homeland security contracts, after the September 11 attacks, and the second was the massive reconstruction effort in Iraq. We were assured in both cases that the Administration Inspectors General and other government auditors would protect the interests of the taxpayers, yet both cases resulted in unmitigated disasters, with the administration squandering literally hundreds of millions of dollars.

But today, most of that money has been spent, and oil and electricity production remain below pre-war levels. I am talking, of course, about the reconstruction in Iraq. So we have virtually nothing to show for our investment for reconstruction in Iraq, for the oil and electricity production. The domestic record is no better. Contract after contract issued by the Department of Homeland Security has been plagued by poor management and huge cost overruns. In some instances, the problem was that the Inspector General pulled a punch. In other instances, the Inspectors General did their job, but their findings were ignored by the administration.

The truth is that this administration simply cannot be trusted to oversee itself. Mr. Rabkin, GAO warned that both Iraq reconstruction and the reorganization at the Department of Homeland Security were "high risk endeavors that needed diligent and robust oversight." Are you satisfied that the administration provided adequate oversight in these two areas?

Mr. RABKIN. I don't think I am in a position to comment on the oversight in Iraq. For the Department of Homeland Security, the oversight that the IG is providing has been growing with the Department. The IG started slowly, with a small contingent, and it has grown, and it is much more robust than it was. And I think also, that the Congress' oversight has grown, likewise, as the Department has taken on additional responsibilities.

Mr. WAXMAN. Well, I am sorry you can't comment on Iraq, but the Government Accountability agency has commented on Iraq, and it has been a very negative one. It was indicated as a high-risk endeavor, and then, they have come up with subsequent reports that have raised serious questions about the hundreds of millions of dollars that don't seem to justified.

Mr. RABKIN. Yeah, I am just personally not——

Mr. WAXMAN. Okay.

Mr. RABKIN. [continuing] prepared to talk about that.

Mr. WAXMAN. But let me go down the line, and maybe not everyone on the panel is able to answer the question, but I would like to know whether any of you believe the procurement approach in Iraq was in the best interests of the U.S. taxpayers, and whether it could have been done better? Mr. Friedman?

Mr. FRIEDMAN. To be honest with you, Mr. Waxman, the only thing I know, frankly, is what I read in the newspaper, and what I have learned through other media, so I really am not in a position to comment.

Mr. WAXMAN. Okay. If you have a comment, Mr. Skinner.

Mr. SKINNER. I am sorry, Congressman. Likewise, I am not in a position to comment.

Mr. WAXMAN. Okay. And Mr. Gimble.

Mr. GIMBLE. Congressman, I think the answer to the one question, could the procurement have been done better? I think the answer to that is yes. I think the oversight community has stepped up and identified some significant problems, of which some are still under active criminal investigation. So I think the answer is yes, absolutely, it could have been better. But it was under hard circumstances that those folks had to operate.

Mr. WAXMAN. And there is criminal investigation as to unsubstantiated charges, is that correct?

Mr. GIMBLE. There are some active criminal investigations ongoing still, and normally, we don't——

Mr. WAXMAN. Relating to private contracting in Iraq.

Mr. GIMBLE. Correct.

Mr. WAXMAN. Okay. Well, do you feel that you could say that the procurement approach in Iraq was in the best interest of the taxpayers of the country?

Mr. GIMBLE. If you are asking me for the national strategy on whether we should have rebuilt Iraq, or committed those funds, I am not in a position to——

Mr. WAXMAN. No, not whether we have done it, whether we did it, once we committed those funds, whether we spent those funds appropriately and wisely, in the best interests of the taxpayers.

Mr. GIMBLE. I don't think I am in a position to comment on that.

Mr. WAXMAN. Okay. Anyone else?

Mr. VENGRIN. No comment, Congressman.

Mr. WAXMAN. Yeah.

Mr. LITTLE. Not in a position to comment.

Mr. WAXMAN. Okay.

Ms. TINSLEY. Nor am I.

Mr. FRAZIER. Nor am I.

Mr. WAXMAN. Okay. Now, well, I want to tell you what I think, because I have been looking at this matter for some time, trying

to exercise oversight, even though there has been resistance in the Congress to do that. I think unless fundamental reforms are put in place, and we create a truly independent oversight body, the taxpayers are going to get ripped off again.

That is why I joined in legislation a couple days ago called the Hurricane Katrina Accountability and Clean Contracting Act. This legislation would create a panel of independent experts to guard against waste, fraud, and abuse, and it would require transparency in contracting, something that I think has been sorely missing.

Americans want their government to act quickly and generously to meet the needs of the hurricane victims and their communities, even if the ultimate price tag is measured in hundreds of billions of dollars, but if we don't radically change course, what we are likely to get is another round of boondoggle contracts that enrich private contractors while squandering vast sums and driving the Nation deeper into debt.

Mr. Chairman, I have some other questions, but I am trying to inquire about the time. I notice that there have been bells ringing.

Mr. WHITFIELD. Yes, Mr. Waxman, you have about 3 minutes left.

Mr. WAXMAN. Okay. Well, let me——

Mr. WHITFIELD. But we have two votes on the House floor, and then, we will adjourn for about 25 minutes and come back.

Mr. WAXMAN. Okay. Well, let me see if I can get into some of these other questions in the few minutes I have left. Mr. Skinner, I want to ask you whether you plan to investigate FEMA's failure to set up appropriate contingency contracts before Hurricane Katrina struck. Greg Rothwell, the Chief Procurement Officer at the Department of Homeland Security, has already expressed concern about this, and yesterday, Michael Brown was asked about it. Specifically, he was asked why FEMA did not have in place a contingency contract to recover dead bodies after the hurricane struck. This is a very unpleasant subject, but I am sure you recall the scores of bodies remain on the streets of New Orleans in plain view, decomposing for 2 to 3 weeks after the hurricane. Now, this was a travesty, these corpses lay there after news stories reported their exact positions, the specific street corners.

When asked about this yesterday, Mr. Brown answered, and I will quote him for you: "That was a mistake, one that we should look at, and make sure we don't do in the future." Are you looking into this?

Mr. SKINNER. Yes, we are, sir. Two weeks ago, we initiated an inspection just to address those types of issues. We are going to be focusing on how well FEMA was, in fact, prepared for this particular disaster, and not only that, how prepared should they have been for this particular type of disaster. We anticipate having our review complete in early 2006, with a report to Congress no later than the end of March.

Mr. WAXMAN. What is so tragic about this is that Mr. Brown was warned, even a year earlier, that such a storm could have come about, and FEMA had noticed that it could have been just like it was, yet he did nothing to prepare for it. Are you looking at the larger question of what contingency contract FEMA should have

put in place, given the specific warnings of the Hurricane Pam exercise?

Mr. SKINNER. Yes, we will be. We will be using that as our baseline, the exercise held last year in New Orleans.

Mr. WAXMAN. And the very sad thing here, as we have seen, and which hopefully we will learn from, is that FEMA brought on a company called Kenyon Worldwide Disaster Management to recover dead bodies, of course, after the hurricane hit, but after a week of dealing with FEMA's bungling, the company quit and started working directly for Governor Blanco of Louisiana. The company even wrote to Congress, and this is what they said about FEMA: "In spite of our best efforts and honorable intentions, numerous roadblocks, hindrances, and interferences have resulted." They told FEMA the present situation is unacceptable, and the company had no choice but to transfer its participation to Governor Blanco. Are you examining this contract, Mr. Skinner?

Mr. SKINNER. Yes, we are. As part of our inspection of our preparedness, how prepared were we, and how prepared should we be, we are also going to be putting the response activities under very close scrutiny from the end of August all the way through September 30.

Mr. WAXMAN. Well, we look forward to your report. We have got to, I think, ask for accountability for what has happened and then be sure this sort of thing never happens again.

Thank you, Mr. Chairman.

Mr. WHITFIELD. Thank you, Mr. Waxman. We are going to take a break. We are going to let Ms. Blackburn ask her questions, and I am going to ask her to come and chair the meeting, and then after that, we are going to have a recess for about 30 minutes, because we want to come back after these votes, and we want to address some of these issues that we have outstanding.

So Ms. Blackburn, if you will come up and take over the chair, we have about 5 minutes left in this vote, and I can't miss any more votes this year myself, so I am going to go vote. I am going to let Ms. Blackburn chair the meeting and ask her questions for the allowable time, and go from there.

Ms. BLACKBURN. [continuing] we come back——

Mr. WHITFIELD. Yeah. And we will come back, and we will be back here at 1.

Ms. BLACKBURN [presiding]. Thank you all for your patience. I know we are running back and forth, and several of us do have questions, and want to ask them. And I appreciate that you are hanging with us and we are back and forth from the floor, and from downstairs.

One thing I want to address before I get into my questions, my colleague had just mentioned that they are, you know, favoring an independent panel to review what happened with Katrina, and I will tell you, quite honestly, listening to my constituents in Tennessee, they expect us, as Members of Congress, and as those who take the responsibility for appropriating, to work with you all to find out exactly what happened, and then, to take the responsibility and the appropriate legislative action.

And I think most of us welcome that responsibility, and we appreciate that you are willing to come before us. Mr. Rabkin, I want

to go to you first. Somebody had mentioned a lack of transparency with the financial transactions. I want to go back to something that came up last year, as we worked with GAO through the Government Reform Committee, on the financial structure, the enterprise architecture, that exists for most departments, as they keep their financial records.

Have we made any greater movement to having all of our departments through their CFO act, have a financial enterprise architecture, department-wide, system-wide, where there is transparency, where you can follow financial transactions on a more timely manner, or are we still in the process of trying to go in-house and build these, and have that transparency at some point in the future?

Mr. RABKIN. Ms. Blackburn, it is my understanding that the government is moving in that direction. I don't have specific information on how far the government has come, in DHS or the other departments at this time.

Ms. BLACKBURN. Would you like to get back to us on where they stand, how much they have spent, and how soon they think they are going to be compliant with being able to have the transparency that has been sought, that they have been tasked to perform.

Mr. RABKIN. I would be glad to.

[The following was received for the record:]

A recently issued GAO report—Financial Management: Achieving FFMIA Compliance Continues to Challenge Agencies (GAO-05-881, Sept. 20, 2005)—deals with this issue (the report is available at www.gao.gov). In summary, we found that in spring 2004, OMB launched task forces to conduct a government wide analysis of five lines of business supporting the President's Management Agenda goal to expand electronic government. OMB and the designated agency Line of Business Task Forces plan to use enterprise architecture-based principles and best practices to identify common solutions for business process, technology-based shared services, or both to be made available to government agencies. Officials at OMB stated that the financial management line of business continues to evolve with four agencies (GSA, the Department of Interior's National Business Center, The Department of the Treasury's Bureau of the Public Debt, and DOT) being selected to become Centers of Excellence through the fiscal year 2006 budgetary process. We have ongoing work to analyze the financial management line of business.

Ms. BLACKBURN. Thank you. Mr. Feaster, talking a little bit about communications, I had some questions that I wanted to direct to you, pertaining to VoIP and VoIP technology. I was on the ground on Mississippi, and nothing worked. And I think one of the failings of this is that the cell towers all went down. We had hardwired phones that didn't work. We had emergency communicators that forgot to power, fill the generators, and to have a backup supply, so that they could run the generators to run the equipment that we had. And cable service, when you talk about having cable TV down there, there are some areas I have talked to where they are saying it will be a year before that infrastructure is back in place. And I know you were saying your staff is small, and that it is going to take you all around—but talk, just for a moment, as you look at this in hindsight, and looking at the fact that most of your telecommunications failed, and if you had VoIP technology, if you were more reliant on satellite for news and information, what difference would it have made?

Mr. FEASTER. I really am not qualified to answer that question, ma'am.

Ms. BLACKBURN. Can you have someone get back to me——

Mr. FEASTER. I will.

Ms. BLACKBURN. [continuing] and provide that. I think it is an important part of our debate, as we move forward. A DHS question that I have. Mr. Skinner, we are hearing a good bit about illegal immigrants who are accessing benefits, and I want to know if—and then, also, we are hearing about individuals claiming to be residents of Louisiana, Mississippi, or Alabama, and coming in to try to access benefits. We are seeing some of this in Tennessee.

I would like to know what type of measures you all have put in place to help with verification of individuals, to be certain that we are not dealing with a lot of identity theft or fraud, or individuals who are claiming to have been from somewhere they are not.

Mr. SKINNER. Yes. There are several initiatives ongoing with regards to the individual assistance program. The Department, for one thing, has developed software packages, which is relatively new, and they haven't used in the past, to match applicant's names, addresses, and other information against ChoicePoint software to validate that these people, in fact, live where they say they are going to live. At the same time, we are embedding our own auditors and investigators with the FEMA folks, so that we can be there on a real-time basis, and review applications on a sample basis, or test basis, and look at internal controls, to ensure that as applications are processed through the processing center, that we have internal controls and checks in place to ensure, that to the extent we can,——

Ms. BLACKBURN. Okay. If I may interrupt you right there.

Mr. SKINNER. Yeah.

Ms. BLACKBURN. So what I am hearing you say is that you have people in the fields——

Mr. SKINNER. Yes. Right.

Ms. BLACKBURN. [continuing] that are doing—and then, you are doing a double check as the information comes in-house.

Mr. SKINNER. That is correct.

Ms. BLACKBURN. Okay.

Mr. SKINNER. And we are going to embed people in our disaster finance center as well. So that will be a third check, where we can look at the controls as the payments go out, to ensure that certain checks have been made before these individuals have, in fact, been determined to be eligible, and a check is mailed. Once the check is mailed, we are inserting in all envelopes a fraud warning, and the penalties associated with submitting an application with false information to FEMA. Also, we are working with the Attorney General's Fraud Taskforce. Our emphasis is going to be on individual assistance fraud. We are working with the Postal Service, the FBI, and with the local U.S. Attorneys to prosecute individuals that may make fraudulent application. As you know, many of these individuals, the max you possibly could receive under any particular grant would be about $26,000. This, of course, doesn't rise to a threshold that most U.S. attorneys would prosecute across the country, but nonetheless, under this taskforce, they recognize this as a priority of the Attorney General, and they have agreed to work with us, and prosecute as many cases as possible. We have already prosecuted one case just last week. We have dozens coming down the pike.

Ms. BLACKBURN. Well, sir, I can assure you, $26,000 is something that excites my constituents, when they see the fraud taking place.

Mr. SKINNER. And it adds up. It certainly adds up.

Ms. BLACKBURN. Yes, sir. It does. And that is the thing. You know, I had a constituent tell me mind your pennies, the dollars will take care of themselves.

Mr. Rabkin, Section 428(a) on the supplemental, the Katrina supplemental, allows the micro-purchases of $250,000, where you don't have to have a bid. It is a no competition, single source contracting, through that provision. Now, I want to know what measures you all are taking, or have put in place on the front end to be certain that that does not get abused.

Mr. RABKIN. I think that is more the responsibility of the agencies that these people that have the credit cards and can use them, what controls they have on——

Ms. BLACKBURN. Okay. Then, in the interests of time, if I can just direct to each and every one of you. If you will address that in writing, to let us know what you are going to do to be certain that 428(a) does not just become an ongoing account, and does not become something that is openly abused.

One other question I want to throw out to you all before I go to cast my vote, and it has to do with minority contracting, and Mr. Skinner, I guess this is going to come to you and Mr. Frazier, primarily. In my district, I am having some complaints from minority businesses who are trying to get inside these contracts. We have contractors who have received prime contracts, and then, the subcontractors are having a very difficult time, and I would like to know specifically what are the requirements that are being placed, so that our small businesses and our minority businesses have the opportunity to fairly compete in this process for the cleanup and the reconstruction, and if you all will just submit that to me in writing, I am going to go vote, and we will be in recess for 25 minutes, and then, the chairman will resume.

[Brief recess.]

Mr. WHITFIELD. There are a couple of additional questions that I wanted to touch base on. I want to thank Ms. Tinsley for pointing out the significant difference between managing for this recovery and oversight of this recovery, and that is something that a lot of members, I think, through their exuberance, enthusiasm, whatever, get into different areas, without recognizing and thinking about the differences.

There has been a number of stories written recently, and sometimes, we can believe what we read in the newspaper, and sometimes, we cannot. But one of the things they pointed out was that on the levee system in New Orleans, which was breached, which was responsible for most of the flooding, that there was a defective construction of the levee by one of the contractors, subcontractors, whatever. Now, I am assuming that as Inspectors General, one of you that has the responsibility for that area, which maybe it would be Mr. Gimble, I am assuming that is something that you will be looking into.

Mr. GIMBLE. Yes, sir.

Mr. WHITFIELD. Is that correct?

Mr. GIMBLE. Yes, sir.

Mr. WHITFIELD. And were you already looking into it prior to these stories, or had you had any information prior to the newspaper stories about it, or how did it come to your attention?

Mr. GIMBLE. Well, I am not sure. First of all, either we will look at it, or the Army Audit Agency will look at it, and to my knowledge, no one was looking at it prior to yhr newspaper stories. But I can't speak for the Army Audit Agency.

Mr. WHITFIELD. Okay. You can't speak for the Army Audit Agency.

Mr. GIMBLE. Not on that issue. I just simply don't know. I——

Mr. WHITFIELD. But would you have any responsibility in the oversight of that issue?

Mr. GIMBLE. We have oversight responsibility over the Army Audit Agency, as part of our role as the DoD IG, but we also have the ability to go in, if we want to go in, and look at a particular issue within the Corps of Engineers, we have that authority also.

Mr. WHITFIELD. But if a contractor used defective methods, or was negligent in some way, obviously, you all will make every effort to get to the bottom of it, and would have the authority to bring criminal penalties, civil penalties, or whatever. Is that correct?

Mr. GIMBLE. Correct.

Mr. WHITFIELD. Okay. And you would be pursuing that.

Mr. GIMBLE. I take it that we will pursue.

[The following was received for the record:]

Currently the Department of Defense, Office of the Inspector General (DoD OIG) is not performing work with regard to allegations that the construction of the New Orleans levee system was defective. The Army Audit Agency is conducting audits of the U.S. Army Corps of Engineers contracts and reconstruction efforts, their ongoing and planned audits do not address the allegations.

Three teams, the National Science Foundation, the American Society of Civil Engineers and the State of Louisiana, are currently conducting investigations of the floodwall breaches. Further, Secretary Rumsfeld announced on October 19, 2005, that the National Academies of Science will convene an independent panel of national experts to evaluate the performance of the hurricane protection system in New Orleans and the surrounding areas. This panel will conduct a forensic study and expects to issue a report by July 2006.

After the above investigations and studies are completed, the DoD OIG will assess the results of these efforts and determine if additional audit or investigative work is appropriate. The DoD OIG will coordinate with other groups and audit organizations, such as the Government Accountability Office, in determining the extent of any future work.

Mr. WHITFIELD. Okay. Now, let me ask another question. There has been a lot of discussion today. Some of the news media here ask us questions about it outside, about the necessity for some, for lack of a better term, special Inspectors General to oversee all of this, and of course, we do have a special Inspectors General in Iraq for reconstruction, and there has been a lot of criticism of that situation. Is there any one of you that would support, that believes that Congress should act in some way, or the President should act in some way, to set up a different structure for oversight in dealing with an issue of the magnitude of Katrina, or do you feel like the current system is adequate to deal with it? I would just like to just go down the line.

Mr. FRIEDMAN. Mr. Chairman, in an event as complex and convoluted, there will never be a perfect governing system, nor will

there ever be a perfect oversight system. But we have looked at it—as the President's Council on Integrity and Efficiency, and on the Executive Council on Integrity and Efficiency, and we have taken a position on this issue. We have a consensus position, and that is that the structure that we have set in place is the most effective structure that we can think of to address precisely the stewardship issues that you are referring to.

Mr. WHITFIELD. Okay.

Mr. FRIEDMAN. Right now, as I think has been evidenced by the testimony this morning, Mr. Skinner and his staff have a very good sense of what is going on in DHS, Ms. Tinsley at EPA, etc. We have created the working group, the Homeland Security Working Group, and we are interacting effectively. We are going to be reporting to one another, in essence. So, I think we have the experience in our respective agencies. Setting up a new IG, you essentially lose all of the learning curve that we have built up over many years of experience. And Mr. Frazier, I think, alluded earlier to the fact that as the sitting IGs, we know both the strengths and weaknesses of our respective agencies. We have identified the main management challenges, and we honestly believe that while there may be arguments, I mean there are at least 4 or 5 different proposals that I have heard about on Capitol Hill currently, while there are lots of alternatives and people can tweak the system, we think we have got everybody working together to do the best possible job that we can do in this oversight business.

So I think creating another entity, another layer that has to start recreating what we have, already, like relationships with the U.S. Attorneys around the country. We also have relationships with the State and local auditors. These are relationships that we have built up over many years. We are experienced in the grants making process, and a lot of this money will be spent, of course, by the states and local governments. So we have a tremendous body of experience that we think we bring to the task, and we think what we have created here, with the Homeland Security Working Group, Mr. Skinner's leadership, and the participation of all the IGs, that we have the best formulation that we can think of.

Mr. WHITFIELD. Now, is there anyone on here that would disagree with that.

Mr. RABKIN. Yes. I am not going to disagree, but I guess you could say that GAO is probably the only organization here without a dog in the fight, and I have talked to the Comptroller General about this, and he is very confident in the organizational structure that has been set up through the existing IGs, as Mr. Friedman has described, and would support the—you know, he is confident in their capabilities, their expertise, their coordination activities, and doesn't see the need for any special IG.

Mr. WHITFIELD. Okay. All right. Thank you. At this time, I would recognize Ms. Schakowsky for her 10 minutes.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman. I apologize for getting here a bit late. Thank you for giving me the time to address this really important issue. I wanted to first associate myself with the questions that Mr. Stupak and others raised about the purchase cards, about the credit cards. I served as the ranking Democrat on the Government Efficiency Subcommittee of the Govern-

ment Reform Committee, at the time that Steve Horn was here, and we requested a number of GAO reports that revealed these blatant abuses, and the really frustrating part was, and many people have expressed frustration, we would come back, and focus on just another, instead of over here, just over here a little while later, and the same thing would be there, and you got the feeling that wherever the light of day was focused, you would find, coming out from under that rock, all of these problems, and so forgive us if we have the certain skepticism about the kind of oversight that is being done.

What I really wanted to focus on, in particular today, oh, and Mr. Chairman, if I could have unanimous consent to put my opening statement in the record, I would appreciate that.

[The prepared statement of Hon. Jan Schakowsky follows:]

PREPARED STATEMENT OF HON. JAN SCHAKOWSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Thank you Chairman Whitfield and Ranking Member Stupak. I am pleased that this committee will have the opportunity today to address what can be done to guard against waste, fraud, and abuse in the post-Katrina recovery period. A thorough discussion on the policy of employing contractors to perform inherently government work is long overdue.

More than 80 percent of the $1.5 billion worth of contracts signed by FEMA for work in the Gulf region were awarded without bidding or with limited competition. As thousands of contractors head into the Gulf region, President Bush jumped at the chance to suspend the Davis-Bacon fair labor law, condemning reconstruction workers to an endless cycle of poverty and lack of opportunity, while leaving profits of contractors in the reconstruction effort unchecked. Clearly, disaster victims should have the priority for Katrina recovery jobs and job training. I am looking forward to hearing what plans FEMA, and other agencies responsible for disaster relief, had in place before Katrina and what plans are being developed now, to make sure every taxpayer relief dollar is spent wisely, effectively, and fairly. The residents of the Gulf Coast and the American taxpayers deserve to have this information. And members on both sides of the aisle should demand accountability.

I'm concerned about the Department of Homeland Security's hiring of private security contractors to perform work such as "securing neighborhoods" and "confronting criminals" in New Orleans. Time and time again, from Columbia to Iraq, and now to New Orleans, we have seen how the federal government has unwisely and irresponsibly utilized the services of private military firms. Private military contractors should not be tasked with security operations in the Gulf Coast because they continue to fall outside the official command structure and operate without clear protocols or responsibility. Ask any American if they want thugs from a private, for-profit company with no official law enforcement training, roaming the streets of their neighborhoods. The answer will be a resounding NO.

I would like to submit for the record an article from The Nation entitled "Blackwater Down", which depicts the author's firsthand observations of military contractors in New Orleans. In one instance, after a potentially deadly exchange of fire involving employees of the security firm Bodyguard and Tactical Security, their security chief reports: "the Army showed up, yelling at us and thinking we are the enemy. We explained to them that we were security. I told them what had happened and they didn't even care. They just left." This was reportedly after staff from the private firm opened fire with automatic weapons in the middle of the streets of New Orleans.

Members of Congress and the public rightfully questioned the President's suggestion that we may need to change the posse comitatus law to make it easier for the military to enforce U.S. laws in times of crisis. I doubt any of them would prefer to have for-profit companies doing it instead. Do we want to be placing the same security contractors on the ground in New Orleans who committed sadistic abuses of Iraqi prisoners at Abu Ghraib? Do we want to have fully-armed security contractors on the ground in the United States who have just returned from Iraq, with a war-like mentality, and possible post-traumatic stress disorder? Who is responsible when something bad happens and who gives them their orders?

And what about the costs? Why should New Orleans fire and police personnel and all the patriotic first responders on loan from other states and localities continue

to receive their regular salaries while these contractors are making the equivalent of six figure salaries off the taxpayers? It doesn't make sense.

This Committee must not allow the Bush Administration to re-import the contracting practices linked to spending abuses in Iraq as it begins the largest and costliest rebuilding effort in U.S. history. Taking advantage of a national tragedy to line the pockets of federal contractors and friends of the President should not be tolerated. I look forward to hearing how the Inspectors General and GAO plan on helping us to avoid fraud and abuse as we rebuild the Gulf Coast. I want to thank the witnesses for being here today.

Ms. SCHAKOWSKY. I am very concerned about the Department of Homeland Security hiring private security contractors to perform law enforcement work, and I wanted to ask a bit about that. There is an article called "Blackwater Down" in the Nation, and I don't see a date here, 9/28, talking about a company now that also has a contract for work in Iraq, a company right now, by the way, whose Chief Operating Officer and General Counsel is Joseph Schmitz, who just resigned as the Pentagon's Inspector General, and now, he is head of Prince Group, which is the parent company of Blackwater.

So here is what it says about what is going on, on the ground, in New Orleans. "Some patrolled the streets in SUVs with tinted windows, and the Blackwater logo splashed on the back. Others sped around the French Quarter in an unmarked car with no license plates. They congregated on the corner of St. James and Bourbon in front of a bar called 711, where Blackwater was establishing a makeshift headquarters. From the balcony above the bar, several Blackwater guys cleared out what had apparently been someone's apartment. They threw mattresses, clothes, shoes, and other household items from the balcony to the street below. They draped an American flag from the balcony's railing. More than a dozen troops from the 82nd Airborne Division stood in formation on the street watching the action.

"In an hour-long conversation, I"—the reporter—"had with four Blackwater USA men, they characterized their work in New Orleans as 'securing neighborhoods' and 'confronting criminals.' They all carried automatic assault weapons, and had guns strapped to their legs. Their flak jackets were covered with pouches for extra ammunition.

"When asked what authority they were operating under, one guy said, 'We're on contract with the Department of Homeland Security.' Then, pointing to one of his comrades, he said, 'He was even deputized by the Governor of the State of Louisiana. We can make arrests and use lethal force if we deem it necessary.'"

So I wanted to ask you, Mr. Skinner, is this an unusual scenario?

Mr. SKINNER. It certainly is. This is the first I have heard of that. I suspect, just based on the little information you have just given me, that that contract is probably a contract through the state or the city of New Orleans. However, they are probably using FEMA or Department of Homeland Security or Federal funds to support that activity, and it is something we will look into.

Ms. SCHAKOWSKY. Okay. Would you let me know——

Mr. SKINNER. Certainly.

Ms. SCHAKOWSKY. [continuing] and this committee know, as soon as possible, if they are, in fact, under contract with the Department of Homeland——

Mr. SKINNER. Yes.

Ms. SCHAKOWSKY. [continuing] Security? I am concerned that, you know, we are debating right now whether or not even men and women in uniform, if the Federal Government, under Posse Comitatus, can carry out law enforcement activities. I am just wondering what both of you actually, Mr. Skinner and Mr. Gimble, think about having these private contractors which, you know, while it seems clearly unusual to me in New Orleans, quite frankly, it seems in many ways as unusual to me in Iraq as well. And we need a lot of oversight on what it is that these private military contractors, questioning the chain of command and the Military Code of Conduct and all those things. But right here on our soil, I just wondered what you think, both of you, on you know, comparing that to Posse Comitatus.

Mr. SKINNER. I have serious concerns in using contractors in this capacity, and the reason I have concerns with that is because one, with the Department of Homeland Security, we have well over 80,000 law enforcement officers that have authority, preexisting authority, and in coordination with the state, we could provide those services. I also know that the PCIE IG community went out, and under Greg's leadership, and recruited well over, I believe, 300 volunteers, law enforcement officers, who are on call, and have agreed to provide law enforcement services on behalf of the Federal Government. So to use a contractor, I question whether this is something that was done directly by the Department of Homeland Security, but nonetheless, these are services that would have been made available to the city or the State upon request, and this is something I am going to follow up on, you can rest assured.

Ms. SCHAKOWSKY. Okay. Mr. Gimble.

Mr. GIMBLE. Yes. I would be very concerned about the implications of that, but I would also be very concerned if this is, in fact, the, you know, the truth on what they were contracted for. Did they, in fact, have arrest powers, and were they authorized to use lethal force? And I read that in the newspaper article myself, so I guess if you had somebody you contracted, and you gave them those powers, I would question by what authority you would do that.

Ms. SCHAKOWSKY. Let me read you a little bit more. And Mr. Chairman, I would like to put this article in the record.

[The article referred to follows:]

BLACKWATER DOWN

by JEREMY SCAHILL

This article can be found on the web at http://www.thenation.com/doc/20051010/scahill

The men from Blackwater USA arrived in New Orleans right after Katrina hit. The company known for its private security work guarding senior US diplomats in Iraq beat the federal government and most aid organizations to the scene in another devastated Gulf. About 150 heavily armed Blackwater troops dressed in full battle gear spread out into the chaos of New Orleans. Officially, the company boasted of its forces "join[ing] the hurricane relief effort." But its men on the ground told a different story.

Some patrolled the streets in SUVs with tinted windows and the Blackwater logo splashed on the back; others sped around the French Quarter in an unmarked car with no license plates. They congregated on the corner of St. James and Bourbon

in front of a bar called 711, where Blackwater was establishing a makeshift headquarters. From the balcony above the bar, several Blackwater guys cleared out what had apparently been someone's apartment. They threw mattresses, clothes, shoes and other household items from the balcony to the street below. They draped an American flag from the balcony's railing. More than a dozen troops from the 82nd Airborne Division stood in formation on the street watching the action.

Armed men shuffled in and out of the building as a handful told stories of their past experiences in Iraq. "I worked the security detail of both Bremer and Negroponte," said one of the Blackwater guys, referring to the former head of the US occupation, L. Paul Bremer, and former US Ambassador to Iraq John Negroponte. Another complained, while talking on his cell phone, that he was getting only $350 a day plus his per diem. "When they told me New Orleans, I said, 'What country is that in?'" he said. He wore his company ID around his neck in a case with the phrase Operation Iraqi Freedom printed on it.

In an hourlong conversation I had with four Blackwater men, they characterized their work in New Orleans as "securing neighborhoods" and "confronting criminals." They all carried automatic assault weapons and had guns strapped to their legs. Their flak jackets were covered with pouches for extra ammunition.

When asked what authority they were operating under, one guy said, "We're on contract with the Department of Homeland Security." Then, pointing to one of his comrades, he said, "He was even deputized by the governor of the state of Louisiana. We can make arrests and use lethal force if we deem it necessary." The man then held up the gold Louisiana law enforcement badge he wore around his neck. Blackwater spokesperson Anne Duke also said the company has a letter from Louisiana officials authorizing its forces to carry loaded weapons.

"This vigilantism demonstrates the utter breakdown of the government," says Michael Ratner, president of the Center for Constitutional Rights. "These private security forces have behaved brutally, with impunity, in Iraq. To have them now on the streets of New Orleans is frightening and possibly illegal."

Blackwater is not alone. As business leaders and government officials talk openly of changing the demographics of what was one of the most culturally vibrant of America's cities, mercenaries from companies like DynCorp, Intercon, American Security Group, Blackhawk, Wackenhut and an Israeli company called Instinctive Shooting International (ISI) are fanning out to guard private businesses and homes, as well as government projects and institutions. Within two weeks of the hurricane, the number of private security companies registered in Louisiana jumped from 185 to 235. Some, like Blackwater, are under federal contract. Others have been hired by the wealthy elite, like F. Patrick Quinn III, who brought in private security to guard his $3 million private estate and his luxury hotels, which are under consideration for a lucrative federal contract to house FEMA workers.

A possibly deadly incident involving Quinn's hired guns underscores the dangers of private forces policing American streets. On his second night in New Orleans, Quinn's security chief, Michael Montgomery, who said he worked for an Alabama company called Bodyguard and Tactical Security (BATS), was with a heavily armed security detail en route to pick up one of Quinn's associates and escort him through the chaotic city. Montgomery told me they came under fire from "black gangbangers" on an overpass near the poor Ninth Ward neighborhood. "At the time, I was on the phone with my business partner," he recalls. "I dropped the phone and returned fire."

Montgomery says he and his men were armed with AR-15s and Glocks and that they unleashed a barrage of bullets in the general direction of the alleged shooters on the overpass. "After that, all I heard was moaning and screaming, and the shooting stopped. That was it. Enough said."

Then, Montgomery says, "the Army showed up, yelling at us and thinking we were the enemy. We explained to them that we were security. I told them what had happened and they didn't even care. They just left." Five minutes later, Montgomery says, Louisiana state troopers arrived on the scene, inquired about the incident and then asked him for directions on "how they could get out of the city." Montgomery says that no one ever asked him for any details of the incident and no report was ever made. "One thing about security," Montgomery says, "is that we all coordinate with each other—one family." That co-ordination doesn't include the offices of the Secretaries of State in Louisiana and Alabama, which have no record of a BATS company.

A few miles away from the French Quarter, another wealthy New Orleans businessman, James Reiss, who serves in Mayor Ray Nagin's administration as chairman of the city's Regional Transit Authority, brought in some heavy guns to guard the elite gated community of Audubon Place: Israeli mercenaries dressed in black and armed with M-16s. Two Israelis patrolling the gates outside Audubon told me

they had served as professional soldiers in the Israeli military, and one boasted of having participated in the invasion of Lebanon. "We have been fighting the Palestinians all day, every day, our whole lives," one of them tells me. "Here in New Orleans, we are not guarding from terrorists." Then, tapping on his machine gun, he says, "Most Americans, when they see these things, that's enough to scare them."

The men work for ISI, which describes its employees as "veterans of the Israeli special task forces from the following Israeli government bodies: Israel Defense Force (IDF), Israel National Police Counter Terrorism units, Instructors of Israel National Police Counter Terrorism units, General Security Service (GSS or 'Shin Beit'), Other restricted intelligence agencies." The company was formed in 1993. Its website profile says: "Our up-to-date services meet the challenging needs for Homeland Security preparedness and overseas combat procedures and readiness. ISI is currently an approved vendor by the US Government to supply Homeland Security services."

Unlike ISI or BATS, Blackwater is operating under a federal contract to provide 164 armed guards for FEMA reconstruction projects in Louisiana. That contract was announced just days after Homeland Security Department spokesperson Russ Knocke told the Washington Post he knew of no federal plans to hire Blackwater or other private security firms. "We believe we've got the right mix of personnel in law enforcement for the federal government to meet the demands of public safety," he said. Before the contract was announced, the Blackwater men told me, they were already on contract with DHS and that they were sleeping in camps organized by the federal agency.

One might ask, given the enormous presence in New Orleans of National Guard, US Army, US Border Patrol, local police from around the country and practically every other government agency with badges, why private security companies are needed, particularly to guard federal projects. "It strikes me . . . that that may not be the best use of money," said Illinois Senator Barack Obama.

Blackwater's success in procuring federal contracts could well be explained by major-league contributions and family connections to the GOP. According to election records, Blackwater's CEO and co-founder, billionaire Erik Prince, has given tens of thousands to Republicans, including more than $80,000 to the Republican National Committee the month before Bush's victory in 2000. This past June, he gave $2,100 to Senator Rick Santorum's re-election campaign. He has also given to House majority leader Tom DeLay and a slew of other Republican candidates, including Bush/Cheney in 2004. As a young man, Prince interned with President George H.W. Bush, though he complained at the time that he "saw a lot of things I didn't agree with—homosexual groups being invited in, the budget agreement, the Clean Air Act, those kind of bills. I think the Administration has been indifferent to a lot of conservative concerns."

Prince, a staunch right-wing Christian, comes from a powerful Michigan Republican family, and his father, Edgar, was a close friend of former Republican presidential candidate and antichoice leader Gary Bauer. In 1988 the elder Prince helped Bauer start the Family Research Council. Erik Prince's sister, Betsy, once chaired the Michigan Republican Party and is married to Dick DeVos, whose father, billionaire Richard DeVos, is co-founder of the major Republican benefactor Amway. Dick DeVos is also a big-time contributor to the Republican Party and will likely be the GOP candidate for Michigan governor in 2006. Another Blackwater founder, president Gary Jackson, is also a major contributor to Republican campaigns.

After the killing of four Blackwater mercenaries in Falluja in March 2004, Erik Prince hired the Alexander Strategy Group, a PR firm with close ties to GOPers like DeLay. By mid-November the company was reporting 600 percent growth. In February 2005 the company hired Ambassador Cofer Black, former coordinator for counterterrorism at the State Department and former director of the CIA's Counterterrorism Center, as vice chairman. Just as the hurricane was hitting, Blackwater's parent company, the Prince Group, named Joseph Schmitz, who had just resigned as the Pentagon's Inspector General, as the group's chief operating officer and general counsel.

While juicing up the firm's political connections, Prince has been advocating greater use of private security in international operations, arguing at a symposium at the National Defense Industrial Association earlier this year that firms like his are more efficient than the military. In May Blackwater's Jackson testified before Congress in an effort to gain lucrative Homeland Security contracts to train 2,000 new Border Patrol agents, saying Blackwater understands "the value to the government of one-stop shopping." With President Bush using the Katrina disaster to try to repeal Posse Comitatus (the ban on using US troops in domestic law enforcement) and Blackwater and other security firms clearly initiating a push to install their paramilitaries on US soil, the war is coming home in yet another ominous way. As

one Blackwater mercenary said, "This is a trend. You're going to see a lot more guys like us in these situations."

Ms. SCHAKOWSKY. "A possibly deadly incident involved Quinn's"—this is referring to Patrick Quinn III, who brought private security to guard his estate and his luxury hotels, which are under consideration for a lucrative Federal contract to house FEMA workers—"a possibly deadly incident involving Quinn's hired guns underscores the danger of private forces policing American streets. On his second night in New Orleans, Quinn's security chief, Michael Montgomery, who said he worked for an Alabama company called Bodyguard and Tactical Security, was with a heavily armed security detail en route to pick up one of Quinn's associates and escort him through the chaotic city. Montgomery told me they came under fire from 'black gangbangers' on an overpass near the poor Ninth Ward neighborhood. 'At the time, I was on the phone with my business partner,' he recalls. 'I dropped the phone and returned fire.'

"Montgomery says he and his men were armed with AR-15s and Glocks, and that they unleashed a barrage of bullets in the general direction of the alleged shooters on the overpass. 'After that, all I heard was moaning and screaming, and the shooting stopped. That was it. Enough said.'

"Then, Montgomery says, 'the Army showed up, yelling at us and thinking we were the enemy. We explained to them that we were security. I told them what had happened and they didn't even care. They just left.' "

So you know, we heard a lot about looters, and we heard a lot about disorder, and we heard a lot of things about lack of security and law enforcement there, but I am just wondering if we have people there who are paid now to supposedly secure law and order who themselves are shooting at will, maybe killing and/or hurting people, and that the Army and the Department of Homeland Security is just standing by. So even in the case of private contractors for a private purpose, what are they doing there, and how, in this instance, is the military reacting to that?

Mr. GIMBLE. I would have to get back you on the specific incident of the 82nd Airborne. I am not actually familiar with what actually happened down there that day.

[The following was received for the record:]

The 82nd Airborne presence in New Orleans was part of "Joint Task Force All American." As part of the joint task force the 82nd Airborne provided support as requested by the Federal Emergency Management Agency and directed by the Department of Defense. The support included humanitarian relief and activities including medical, logistical, and communications support, as well as clean-up assistance.

The DoD OIG has contacted the Department of the Army, the Army Inspector General, and the 82nd Airborne for information pertaining to the previously described instance. There is no formal record of an incident involving the 82nd Airborne as described in, "Blackwater Down," *Nation*, October 10, 2005.

Ms. SCHAKOWSKY. Okay. All right. I think this whole area really, really needs to be explored. The use of private military contractors hired by the Federal Government, and those who may be carrying out illegal activities while the military stands by and lets it happen.

Thank you very much. I yield back.

Mr. WHITFIELD. And Mr. Skinner, would you get back to the committee, and verify if that contract was with the Federal Government or agency or——

Mr. SKINNER. Yes, I will, sir.

Mr. WHITFIELD. [continuing] or through the state, and we would appreciate that.

Mr. SKINNER. Yes.

Mr. WHITFIELD. At this time, I am going to recognize Mr. Stupak. We had agreed on a second round of questions, and since our Republican member we were anticipating is not here, Mr. Stupak, I would recognize you for 10 minutes for your second round.

Mr. STUPAK. Do you want to follow up?

Ms. SCHAKOWSKY. No, go ahead.

Mr. STUPAK. Thank you. One of the things I saw in the newspaper recently was that the Federal Government is going to reimburse the American Red Cross $100 million of the money that they have donated toward the victims in Hurricane Katrina. If that is true, what is that $100 million going to be for? Does anyone know, and who would have oversight on that?

Mr. SKINNER. I could only speculate. I know after 9/11, that FEMA entered into a prearranged agreement, pre-disaster agreement with the Red Cross, to reimburse them for their extraordinary expenses in assisting and providing aid early on in the disaster. Those expenses could possibly be for overtime for their staff, for the cost of extraordinary type expenses, for sheltering, food, things of that nature. And it is a contract; it is a prearranged contract; and it has been longstanding, at least since 9/11.

Mr. STUPAK. My only concern was like 9/11, we had this, sort of like the same type of situation, where they went on TV, and solicited funds from the American people, and the American people are so generous they open up their wallets and their hearts, and they give the American Red Cross money, only to find that it is not for disaster relief. I am sure this $100 million will not go for the disaster relief, but sounds like operating costs, and unless it is directly related to Hurricane Katrina, I think you are going to be really on some weak ground there, and I think the American people would be upset.

The American Red Cross has raised close to $1 billion through the generosity of the American people, and I just want to make sure it is not going to be used in that $100 million for general operating costs. That is a real concern of mine.

When you have waste, fraud, or abuse, and you want to bring charges against somebody, do you follow the State statute of limitations if you are going to bring a charge, a criminal charge?

Mr. SKINNER. We use Federal statute.

Mr. STUPAK. Okay. What is the statute of limitations there?

Mr. SKINNER. I believe it is 7 years. I believe it is 7 years from the time that we——

Mr. STUPAK. Has that time been adequate? I have had one or two officials tell me that they wish the length of time was further, because it seems like it is 4 or 5 years out, after one of these disasters, that is when we find out that there has been duplication and waste and things like that. Should it be longer, in your estimation?

Mr. SKINNER. Well, from a Federal law enforcement perspective, of course, we would like to have it to be longer.

Mr. STUPAK. Well, what length of time?

Mr. SKINNER. I don't have——

Mr. STUPAK. I mean if Congress has to act on it, we should.

Mr. SKINNER. From my personal experience, the 7 years has generally been adequate. For major fraud initiatives or fraud efforts made by our office in any regard, it hasn't presented, or prevented us from prosecuting. You may want to ask the FBI or U.S. Attorney, someone that has more, a broader range of responsibilities, outside disaster activities.

Mr. STUPAK. If we put one of those no-bid contracts in, and you find that it is not what it should be, or being paid too much, what can you do? Can you go back and try to renegotiate down that contract?

Mr. SKINNER. Absolutely. The first thing we would do is recommend that that contract be frozen, that we sit back down, and depending on what the issues are, we either renegotiate it or cancel it.

Mr. STUPAK. Have any of these contracts been long-term? I mean I know the cruise line is like 6 months or something like that.

Mr. SKINNER. Most of these contracts are, in fact, going to be long-term. The technical assistance contracts, for example, will probably run us for 2 to 3 years. The cruise thing is somewhat of a short-term——

Mr. STUPAK. Sure. That is——

Mr. SKINNER. [continuing] finite.

Mr. STUPAK. If some of these—and you said a lot of them are 2, 3 years, then I guess it just really begs—and go back to the question I had earlier, then. Why don't we know what our strategic plan is, then, before we let these contracts, especially technical contracts, which really have nothing to do with saving lives or things like this?

Mr. SKINNER. We certainly can do a better job in that regard. I think that as part of your National Response Plan, we need to be in a position to react to an incident of this nature. Historically, FEMA has, in fact, a plan in place, a National Response Plan. We also have contracts in place, but no one, I don't believe, has ever anticipated that we would have any devastation to the degree we have experienced in the Gulf Coast.

Mr. STUPAK. Will the Inspectors General, will they go back, and then look, and see what went wrong here with Hurricane Katrina?

Mr. SKINNER. Yes, sir. We will. Matter of fact, we are doing that as we speak. We initiated a review 2 weeks ago. We are looking at how prepared FEMA was, and not only that, but we are looking to assess how prepared should they have been, particularly in light of the fact that we have had considerable experience with exercises in the New Orleans area.

Mr. STUPAK. Well, and speaking of that exercise, that Pam exercise, what you learned from Pam, was that followed in Katrina?

Mr. SKINNER. No, evidently, it was not.

Mr. STUPAK. Then why not? If there was a plan, and there was, I know someone testified at one of our other hearings, Mr. Chairman, that they had tabletop discussions about it, but why, if it

hasn't worked, the exercise didn't work, or it didn't achieve the results you wanted, what would be the one thing you would point to that said why it didn't work. Was it resources, assets, what is it?

Mr. SKINNER. I think the exercise, in itself, did work, in that it uncovered the vulnerabilities that would exist if a major hurricane would hit New Orleans. The issue is, although the Federal Government learned a lot from that exercise, I don't think there was an action plan to correct the issues that were identified as a result of the exercise.

Mr. STUPAK. So the weaknesses learned from the exercise wasn't in place when Katrina hit.

Mr. SKINNER. Precisely.

Mr. STUPAK. Is that unusual, because it was over a year later?

Mr. SKINNER. I would suggest that those questions should be directed at FEMA. My uninformed observation would be that no, that is not unusual.

Mr. STUPAK. Okay. Mr. Gimble, I mentioned earlier those four employees with the Army Corps of Engineers. They fall underneath your department, do they not, Army Corps of Engineers?

Mr. GIMBLE. They do.

Mr. STUPAK. Is someone going to look into why they were let go or demoted? Or is that something you don't handle?

Mr. GIMBLE. Actually, the demotion, if we are talking about the same one, is being looked at. It has been looked at by the Army. It has been looked at by us, and the actual demotion, I think, was found to be proper, unrelated to any other allegations in criminal investigations that still may be ongoing. I am not sure, when you say the four, I am not sure who the other three are.

Mr. STUPAK. Trying to find a question here I wanted to ask you. Mr. Gimble, there has been some suggestion that DoD take over evacuations in certain disasters, like we have seen here with Rita and Katrina. Has any internal thought been given to that at your level? Did you learn anything from Pam that would make you believe that the military would be better equipped to handle it than FEMA?

Mr. GIMBLE. The answer at my level is, no, there hasn't been any great discussion about it. What we saw was that the President announced that he thought that might be an idea to be explored. I think there are some Posse Comitatus issues that surround it, so, at this point I haven't been involved in any discussion, and I think there would be a lot more discussion that would have to take place before any decisions were made.

Mr. STUPAK. Let me yield to you. I am going to yield by remaining time to Ms. Schakowsky. She wanted to follow up on some questions.

Ms. SCHAKOWSKY. Thank you. Thank you. You know, I am really concerned that you seem so unaware of Blackwater's presence. I am kind of reminded of the conversation with both Secretary Chertoff and Michael Brown, we don't know anything about what is going on at the Convention Center, at the Superdome. I am looking now at the POGO website, the Project on Government Oversight. I am looking at an article from the Virginian Pilot, and I am looking at a press release issued by Blackwater. Let me just read a little bit of this article. "Blackwater USA, the North Carolina-

based security firm best known for supplementing U.S. troops in Iraq, is now attracting international attention"—obviously not here—"patrolling the flooded streets of New Orleans."

"Accounts of Blackwater personnel carrying M-16s and other assault weapons around the devastated city have appeared on dozens of Web sites, including sites in Europe, Canada, and Australia. Many of the reports compare Blackwater's presence in New Orleans to the company's work in Iraq."

Okay. Here is from Blackwater. "Blackwater USA continues to support Katrina-devastated areas. Since first joining the relief efforts on September 1, Blackwater USA has continued to provide support to hurricane-devastated area, with a variety of services, including search and rescue, helicopter support, security services, and critical infrastructure protection." Anne Duke said, this is from the POGO site: "Anne Duke, a Blackwater spokeswoman, said Wednesday that the company has about 200 personnel in the hurricane-ravaged area. The vast majority, 164 employees, are working under a contract with the Federal Protective Service, a division of the Department of Homeland Security, to protect government facilities. The 30-day contract can be extended indefinitely, she said."

So explain to me how you could come here—there are 200 people there, ultimately under your auspices, and I am just telling you for the first time?

Mr. SKINNER. These people are not under our auspices. We, right now, just deployed there last week. We are focusing on——

Ms. SCHAKOWSKY. Well, then explain to me what this means.

Mr. SKINNER. Not that particular contract, but all contracts, major contracts, if that is one of them, they will fall under our purview, as far as reviewing it to determine whether it is a worthwhile or legitimate contract.

Ms. SCHAKOWSKY. Well, then you——

Mr. SKINNER. No one has brought that——

Ms. SCHAKOWSKY. [continuing] need to explain to me——

Mr. SKINNER. [continuing] particular issue to my personal attention.

Ms. SCHAKOWSKY. Okay. So then explain to me how the organizational chart works. It says under a contract with the Federal Protective Service, a division of the Department of Homeland Security. So——

Mr. SKINNER. Yes.

Ms. SCHAKOWSKY. So is that not the Department of Homeland Security?

Mr. SKINNER. Oh, yes.

Ms. SCHAKOWSKY. And you are—okay.

Mr. SKINNER. In that regard, yes. If that is, in fact, a subcontract, FEMA obviously issued a mission assignment to the Federal Protective Service. The Federal Protective Service then, in turn, contracted with Blackwater to provide security within the New Orleans area. They would be under the DHS' purview, of course. Has our office directed our attention to that particular contract at this point? No, we have not. But that is something that I can assure you we will.

Ms. SCHAKOWSKY. Okay. And how is the decision made to, whether or not to hire these private security forces?

Mr. SKINNER. We would have to look to see what type of capabilities the Federal Protective Service has within their own office. They may have competed for protective services contractors, or they may have no-bid it. I don't have the information at this point in time.

Ms. SCHAKOWSKY. Okay. Well, I know my time is up. Go ahead.

Mr. STUPAK. Sorry. I am sorry, Jan. I think her question just makes the point, it seems like we want to have the authority to review the contracts, but we don't want to have the authority to review the contracts, and it is probably why we need a CFO, or someone in charge, someone accountable, because you are all trying to run your own agencies and that, and we need, on this one, need someone in charge, who can be held accountable to this whole thing on these contracts.

Thank you, Mr. Chairman. Thank you.

Mr. WHITFIELD. Thank you. I want to go into one area just briefly here. The cruise ship issue, which has been publicized so much in today's Washington Post, and the amount of $236 million, who actually, if you were doing oversight on, who would have the authority to enter into that contract? You talked about contract officers, and I am assuming they have responsibility to a certain level. Who would have the authority to sign off on a $236 million contract?

Mr. SKINNER. In this particular case, I believe it was the Federal coordinating officer——

Mr. WHITFIELD. The Federal coordinating——

Mr. SKINNER. [continuing] that had, from an operational perspective, made a decision, yes, we need housing, and the ships is an alternative to provide that housing.

Mr. WHITFIELD. Right.

Mr. SKINNER. As far as entering into the contract, per se, that would be a contracting officer, most likely within the Department of Defense, who we have employed to act as a contracting officer for the Department of Homeland Security.

Mr. WHITFIELD. The contract officers in most of your agencies, what level of authority do they have to enter into contracts? Is it different per agency, or——

Mr. FRAZIER. It varies, because in certain agencies, people have warrants that give them the authority to obligate the government up to $1 million. Sometimes, it is much higher. But it varies by agency and by individual.

Mr. WHITFIELD. Okay. Okay. Because I know at the FCC, I mean you all are, this is a minor item, but you have given out cell phones to people through various programs, for communication purposes. Correct?

Mr. FEASTER. Yes.

Mr. WHITFIELD. Okay. Okay. Now, one of the values in having a hearing like this, is that you all come in here with a lot of expertise and experience, and we value that. From your perspective, and if you were giving advice to Congress, or if you were sitting down at a town meeting in New Orleans, let us say, with people who have been affected by this disaster, I would like to give all of you an opportunity to tell us, as Members of Congress, some needs that

you have that could make your program more effective, if you have any thoughts on that.

I know that you have indicated that from your perspective, you feel pretty good about the organization, the way it works right now. Recognizing that there are shortcomings, recognizing there are all sorts of problems, but when you look at alternatives, you feel pretty good about what you have. So I would like to open it up, and give you an opportunity for some specific suggestions that you might have to do a better job at what you are doing.

And Mr. Rabkin, we can start with you, and if you don't have any, that is fine, too.

Mr. RABKIN. Well, generally, Mr. Chairman, we look for criteria when we go in to audit how well an organization has performed. We would like to know how well were they supposed to perform, and the National Response Plan is supposed to be that criteria. It was, as you heard, it was just developed and implemented earlier this year, or late last year. This is really the first test of it, and also, within each of the agencies, we look for criteria, regulations, et cetera. So and I just hope that the, as we do our work, that the agencies are cooperative with not just the GAO, but also with all the IGs, in making people and documentation available, so that we can do our jobs.

Mr. WHITFIELD. Now, just the preliminary information that you have in relating to this National Response Plan, do you have any assessment of how it has worked to this point, or is it too early?

Mr. RABKIN. Well, I think it is too early, but you know, having glanced at the plan, you know, it has got, I think, an appropriate structure. The question is depth, and the question is, you know, how much of a catastrophe did it anticipate, and those are some of the questions that we are going to be looking at.

Mr. WHITFIELD. Okay. Mr. Friedman.

Mr. FRIEDMAN. Well, a couple of points, if I can, Mr. Chairman. First of all, on a more narrow level, you made a very good point when we began the afternoon session, and I would be more than happy to meet with majority counsel and minority counsel to make sure there is no lack of clarity about the role of the Inspectors General, and the distinction, which is an important distinction, between our role and that of management. If we get too close to management, we lose our independence, and so I think there may be some lack of clarity, and we would be more than happy to work with you to clear that matter up.

In a crisis of this magnitude, with the amount of money that is being spent, there are enhanced or increased vulnerabilities. The point that we have been trying to push within the PCIE, and Mr. Skinner has picked up on that, and others have as well, is prevention. The key is preventing the dollars from going out the door, rather than performing an after-the-fact exercise. And we in the IG community are attempting to do that, and do that aggressively. In other words, concurrent reviews, contemporaneous reviews, not after-the-fact reviews. And we are trying to do that. I think to the extent that this subcommittee and others, who have cognizance over this huge amount of money that is being spent, should look to that sort of model.

I think, though, there is one important point, and may get back to my original point, and that is the responsibility of management. When we talk about prevention, it is critically important that the various agencies and the senior managers set the tone from the top. This in terms of making sure that there are the right controls, management processes, and procedures in place, so there is a discipline, from the get-go, that is applied to the people who are working this crisis at all levels, that there are performance metrics in place, to make sure that there are ways in which the management can evaluate the progress, the success they have had. The people should be held accountable and responsible for what goes right and what goes wrong.

Mr. WHITFIELD. Okay.

Mr. FRIEDMAN. So I think there are lots of people involved, including the Congress, obviously, which plays a major role. There are some lessons that we can, from past experiences, if applied to this experience, I think we will all be better off.

Mr. WHITFIELD. Mr. Skinner, do you have any comments?

Mr. SKINNER. Thank you. Yes. First of all, I would like to just echo what Mr. Friedman has said with regards to a clarification or clarity as to what our roles are vis-à-vis, the role of program managers and the people that are charged with delivering the services. Keeping in mind that our role is to ensure that the program people do their job, and they do it properly, and that they apply the proper internal controls, and that they act as good stewards of Federal dollars. And that is exactly what our role is.

In something as large as this, what do we need? Obviously, it goes back to resources. There are thousands of contracts out there, and Blackwater may be an example. We don't have the resources to look at every one, every contract action out there. We are focusing on the big dollar tickets, those that are the most vulnerable to fraud, waste, or abuse, that being the no-bid contracts, things of that nature. There is no office that can provide 100 percent coverage——

Mr. WHITFIELD. Right.

Mr. SKINNER. [continuing] of all activities or all expenditures that are being incurred out here as a result of Katrina. Yes, there needs to be some type of accountability. That can take place in a variety of places. If we are looking for a nationwide office to turn to, as to provide accounting for where these funds are going, I would suggest that could be OMB, because all moneys eventually flow through OMB, from Congress, into the states, in the reports back, flow back to OMB. Our responsibility is to provide oversight. I think we have an excellent mechanism in place right now to provide that oversight, both individually, for our individual programs, and collectively, overall, in the Federal Government, through the PCIE Homeland Security Roundtable, and we are, in fact, through that working group, doing that as we speak.

Mr. WHITFIELD. Do you, or does anyone else have any specific suggestions on places this could be improved? Mr. Frazier?

Mr. FRAZIER. Yes, Mr. Chairman, the only thing that I would say is that I think that if the IGs should work closer with the Congress: one of the things that I heard many of the members of the subcommittee talking about, repeatedly was credit cards and the

purchase cards. That is something that is going to be a very important tool as we go forward, but if you recall, 4 or 5 years ago, the purchase cards in government were just in shambles.

And then, once the Congress starting holding hearings, and the IGs did quite a bit of work in that area, and while it is still not perfect, it is a much better system than we have ever had before. It forced the IG community to work together. We have put together a data base that is on the IG net, where we share all of the work and reports that we do in the areas of purchase cards. We have more consistent guidelines, so that people now can get fired when they abuse those cards. So when we are in a position, now, where these limits are going to be raised, we know there are going to be some problems. But, you are not going to have the level of problems that you would have had if the Congress and the IGs had not worked together in the last few years.

So I guess if I had one message here, it is that Katrina gave us a mess, but there is a message that will come out of this, and that is the importance of us working together on issues before the problems actually come up. One of the things that you have heard just about everybody on this panel talk about: we are concerned about procurements. But if you read our semiannual reports, and the annual reports put out by the President's Council on Integrity and Efficiency, it is almost at the top of everybody's list of the problems that exist in government and in this area.

So if we deal with these problems before there is a crisis, it better prepares us, if you will, when the crises come, and they will come. We are in a better position to deal with it. So if I had to add one thing, it would be that more of the opportunities for the IG and the Congress to work together. We work for you too, you know.

Mr. WHITFIELD. Well, thank you, Mr. Frazier. At this time, I will recognize the gentleman from Mississippi for 10 minutes.

Mr. PICKERING. Thank you, Mr. Chairman. I appreciate this hearing. Let me first do something just for the entire panel. It is going to be very important for us as policymakers, as we look forward, as we learn lessons from Katrina and the response, that we have very good reporting, that you will document how the contracts were performed, if there was waste and fraud, but one thing that I am particularly interested in is the current contracting procurement methods, the contracts, the national contracts on cleanup and recovery, that we are now seeing implemented in the field. How efficient are those? How much administrative costs are part of those contracts? And let me tell you why.

For example, there is, in Mississippi, in the cleanup and recovery, AshBritt, a large corporation, won a contract. Then it is time to clean up. It takes them at least 5 to 7 days to get into the State after the event. They are then working, I believe, with the Corps of Engineers administering the contract. They then hire subcontractors to find subcontractors to find subcontractors. How much inefficiency is in that type of process, of bureaucratic costs, or administrative costs, from FEMA, to the Corps, to the contract, to the subcontractor, to the subcontractor, to the subcontractor. And as you can imagine, when you go through that process, one of the most important things that you have a need of, and remember, this whole area has been declared by the Secretary of Health and

Human Services as a health hazard, so cleanup of the health hazard, very, very quickly, is critical to the wellbeing and the health of the region, and it also becomes, very quickly, a fire hazard. But as we are going down through the chains to get people cleaning up, we still have a lot of debris that is sitting on the ground, on the roads, in the streets, all over the affected region, a month after the storm. And I imagine it will be there, in some places, months from now.

So your commitment to give us reporting not only on fraud, but whether this is the most efficient way to do business, is going to be very critical, and I would just ask that you would commit to reporting both the fraud, but also, is this the most efficient administrative way to manage the contracts? That is more of a statement than a question.

I would like to ask specifically Mr. Gimble, I believe that you are managing the contracts through the Corps of Engineers for the cleanup and recovery. Is that correct?

Mr. GIMBLE. The DoD IG is not managing the contracts. We have the oversight of the contracts.

Mr. PICKERING. Yeah, you have, but DoD Corps is administering, and you are the oversight IG.

Mr. GIMBLE. And we have announced a project to look at the very thing that you mentioned: are all of these contracts being executed efficiently, effectively, and in accordance with the laws and regulations. We have a team already working on that very issue.

Mr. PICKERING. When the Corps of Engineers administers, what is their overhead cost?

Mr. GIMBLE. On overall contracts, or just on specific, these——

Mr. PICKERING. These specific for cleanup and recovery.

Mr. GIMBLE. I don't have an answer for you. I will have to get back, and it may take some time to figure that out, but——

Mr. PICKERING. I have heard anywhere from 7 percent to 30 percent. Would that be in the range?

Mr. GIMBLE. I don't know. I will have to get back to you on that.

[The following was received for the record:]

The DoD OIG is working with the U.S. Army Corps of Engineers, the Army Audit Agency, and the Defense Contract Audit Agency to determine information on overhead rates contained in debris removal contracts related to Hurricane Katrina efforts. Ongoing audits by the Army Audit Agency and the Defense Contract Audit Agency should provide the information necessary to determine and compare contractor overhead rates. Upon completion of these audits we will provide the committee information on debris removal contract overhead rates.

Mr. PICKERING. I assume the thinking was, if we could have a national contract prior to a storm, that that would be more efficient. You get people working more—you don't have to go into a contracting process prior to a storm. As you all know, the way that the FEMA contract worked with AshBritt is that if AshBritt does it, and there are subcontractors, the local community gets 100 percent reimbursement. If the locality has either a preexisting or they go out and contract on their own with local companies, they only get a 75 percent reimbursement. So you have a very strong bias toward the national FEMA Corps contractor, and against the local contractor. Also, the threats, not the threats, but the possibility of audits by FEMA of the local contract also makes it almost 100 per-

cent, not quite, that they are going to go with the FEMA contractor.

Now, this is a devastated area that is trying to put people back to work, working with companies from all over the country, but not their own companies. As you can imagine, that creates extreme frustration in the local communities, and in local jobs and local contractors. And I just believe, and I need your data, that local communities and the pulpwood haulers, and the debris removers in my State could do it more cost effectively than the way it is being done now. And should we give states, instead of having FEMA do these huge national contracts, should we say as part of national preparedness, that they will have preexisting contracts with certain standards, and then after the fact, the accountability and the documentation, but let it be done more at the local level than at a national level that includes so many different layers.

So as we go through this process, that type of comparative analysis would be very helpful, to know what is the best way to do this, not only in helping a local area recover with jobs, but what is the most cost effective way to do this. And Mr. Chairman, one thing that I would be interested in, if we can get kind of an economic rate of cleanup based on debris, whether it is on a volume amount, or in some type of measurement, I would just as soon give a cap, and tell states and localities you can do it. This is all you are going to get, and I am sure they will find a way to do it with a cap. And I tell you, they would be cleaning up the day after the storm, not weeks after the storm.

So I hope we can find a more efficient way to get cleanup and recovery, a less adversarial relationship between the Federal Government and local communities and contractors. And one way that we can predict costs, rather than having an unpredictable surge of spending, and concern over fraud and waste. I think there is a better way to get at the concern of fraud and waste without the way it is being done now.

I gave a speech, and didn't ask many questions, Mr. Whitfield, but these are all things that you can help us on this committee, and in Congress, as we look at, and look for lessons learned from Katrina, so that as we go forward, hopefully we can have a more efficient way, a more compassionate way, and a more effective way of doing this.

Thank you, Mr. Chairman.

Mr. WHITFIELD. Mr. Pickering, thank you. We have enjoyed your speech very much, and look forward to some more, and I would to say to Mr. Walden and Mr. Burgess, that Mr. Stupak and I both had an opportunity to ask additional questions in a second round. Do either of you have any additional questions you would like to ask?

Mr. PICKERING. Mr. Chairman, if I could. Mr. Gimble, when can you give me the numbers on the administrative cost of the Corps?

Mr. GIMBLE. I will get back to you as soon as I can. If I can't get them, if they are not readily available, I will tell you that, but short of that, I will get you the answers back.

Mr. PICKERING. If you could get those back as soon as possible.

Mr. GIMBLE. I will.

Mr. PICKERING. And I assume that you will be giving the information to Mr. Whitfield on the committee. And if there is any, also, administrative costs to AshBritt, subcontractors and subcontractors, if you can tell me how much are we spending on the administrative overhead. So then, if we are spending $1 billion, and we have got 30 percent administrative overhead, that is $300 million, to try to stop maybe $100 million of fraud.

That is what I want to know.

Mr. WHITFIELD. Now, Mr. Walden, you are recognized for 5 minutes.

Mr. WALDEN. Thank you very much, Mr. Chairman. It just strikes me that when you have got a crisis of this magnitude, or an emergency with this level of disaster, the numbers of people that had to be evacuated and all, government is almost in a damned if you do, damned if you don't situation. Because I have sat through several of these hearings now, where the first barrage is the government didn't act quick enough, quickly enough, and throw every resource at it, and everybody had a million ideas about what should have happened, most coming from people who weren't down there, and then, there is sort of this phase. It is almost going through a grieving phase, now, what did you do wrong? And we need to do that analysis, but I just wonder how you get at these issues. My colleague and friend from Mississippi talked about how you pre-position the assets you may need in case of a disaster of this magnitude, although it is rare we get one this bad, fortunately. And I know the military does some of that, pre-positioning of pre-bid, pre-position packages to do certain things.

Can maybe you speak about how the military does that, versus in a domestic disaster, how we might benefit from that knowledge and capability, be able to get in quickly? Because I mean I don't know how you have time to go out and competitively bid fixing a levee that just broke, while the waters are rushing in flooding nursing homes and killing people. And there is a lot of second guessing that can go on afterwards, but at the time, I have to think for the most part, it is good intentioned people trying to do the best they can to be innovative to solve a crisis at hand, and take the flak for it later. And I just—and I throw that out. How do you do pre-positioning? What happens in the thrust of the emergency?

Mr. GIMBLE. I think there are two things. One is the pre-positioning of war reserve stocks; that is what I think you are talking about. Typically, that is not contracts. That is hard supplies and equipment. If we think we are going to go to war in Europe, we may put in that region a strategic supply of fuels and ammunition that would be available to meet certain surge rates. If we had to replace a wing of aircraft, for example, where would the parts come from? So that is kind of a——

Mr. WALDEN. That is the plan.

Mr. GIMBLE. [continuing] different scenario than when you have a one-time flood that comes in on a random basis, and you don't know exactly where it is. In the firct scenario, you know the part of the world you are going to be in.

Mr. WALDEN. Right.

Mr. GIMBLE. And you would do whatever you could to pre-position equipment over there now. When you get into the emergency

contracting, a lot of that is—you saw that in Iraq. There was a lot of emergency contracting, and I said earlier, I think that could have been done better by the Department than it was. So I don't necessarily know that there is a parallel, I guess that is my point.

Mr. WALDEN. Okay. Let me give you another potential example, then. The way we fight forest fires, there are national contracts out there for crews that can be moved anywhere in the nation, wherever fire breaks out. Is that a model that could be used during hurricane season, to have ready attack crews, and I think actually some of those national contractors have brought in in cleanup efforts, can you speak to me about that, as an example?

Mr. GIMBLE. I think I would probably defer to——

Mr. WALDEN. That is fine.

Mr. GIMBLE. [continuing] Homeland Security on it, because it is kind of out of the realm of what we do in Defense, but——

Mr. WALDEN. Sure. Mr. Skinner.

Mr. SKINNER. Yes. In fact, it is my understanding that FEMA does——

Mr. WALDEN. Is your mike on, by the way? Can't——

Mr. SKINNER. Yes, it is.

Mr. WALDEN. There you go.

Mr. SKINNER. Okay. It is my understanding that FEMA does, in fact, have a program to pre-position supplies, staff, and response capabilities, including preexisting contracts, who also have, for example, preexisting contracts with the Corps of Engineers that allow us to bring in MREs, ice, water, tarps for homes, things of that nature. What happened here in the Gulf Coast is that the storm grossly exceeded the capability of those resources that were pre-positioned and brought in, and as a result, that is where we had to go out, or FEMA had to go out and do a 24 hour sole source contract to bring in additional resources to supplement what they have already pre-positioned.

Mr. WALDEN. What would have happened if you had to competitively bid that process, to deal with the overwhelming need?

Mr. SKINNER. Then——

Mr. WALDEN. What kind of timeline would you have been on?

Mr. SKINNER. It could be done, you can do limited competition, and to some extent, some of that was done. I was not on the ground when FEMA had deployed, or no one from the IG was actually on the ground——

Mr. WALDEN. Right.

Mr. SKINNER. [continuing] when they were deploying in this response mode, per se. You run the risk of delaying delivery of services that could impact the protection of property or saving lives, or getting people shelter, getting them water, getting the basic essentials. You can't try to go out and get competition in the middle of a battle, the resources were needed yesterday. FEMA obviously has long term standing relationships with many of the contractors, so they just turned to them, and asked them to provide additional resources.

Mr. WALDEN. And will you be doing review of some of those sole source——

Mr. SKINNER. We are going back to day one, and looking at all of the sole source contracts.

Mr. WALDEN. Okay. So you will be able to catch if there was——

Mr. SKINNER. Yes. We are going to look for evidence as to whether it was justified to use sole source, whether there was other alternative means, limited competition, or full competition. We will be looking to see if the contracts that we entered into were fair and reasonable, and the contractor was qualified, and able to provide the services.

And then, of course, we will be looking to see if they did, in fact, provide the services as agreed upon.

Mr. WALDEN. Right. Right. Thank you very much.

Mr. WHITFIELD. Mr. Burgess, did you have any additional questions?

Mr. BURGESS. Yes, Mr. Chairman. Mr. Skinner, one of the things we heard about repetitively during the crisis was all the various pinch points, and certainly, FEMA and the Federal level seemed responsible or some of those, inability to get material in, and inability to get ambulances in to patients that needed to be evacuated from a ventilatory hospital. And there also seemed to be difficulty with FEMA working with State and local officials, and I guess the question then comes up in my mind, for the going forward with oversight, what are you going to do to make certain the DHS works well with State and local officials, in order to keep that oversight in line?

Mr. SKINNER. I am not quite sure I understand the question. When we provide oversight, we will be looking at——

Mr. BURGESS. Well, you will have to coordinate with State and local officials. Your expensing of dollars, your functioning as the wholesaler is going to produce material for them. I got the impression, maybe it was the wrong impression, during that first week after the hurricane, that that interplay between FEMA and the local officials wasn't working, for whatever reason, and not to assign fault to anyone for that, but it wasn't working. Well, now, you have got the task of oversight ahead of you, and how are you going to—and we have got an enormous amount of money coming Louisiana's way, and it is not all going to be administered by FEMA. Some of it will be delegated from FEMA to State and local officials, and how are you going to be certain that those moneys are spent appropriately?

Mr. SKINNER. That is one of the things we are doing in Louisiana. We have already with the State legislative auditor and the State Inspector General.

Mr. BURGESS. When did that happen?

Mr. SKINNER. This was about, I am going to say the week of September 12, about 2 weeks after the incident. They have agreed to put forward about 36 auditors to provide oversight of all the applications that will flow to FEMA through the Office of Emergency Preparedness, so that we will be working with them hand in hand in that regard. We are also in meetings, as we speak, with the State auditor in the State of Alabama, and the State auditor in Mississippi as well, to develop partnerships with them, so that we can collectively look at all the bills that will be coming through.

Not just the bills, I should say, but all the applications. What we want to make sure is that when these applications come in, before they are even awarded or reviewed by FEMA, the State auditors

will be making a determination whether one, are you eligible, two, do you have support for the estimate of your costs associated with whatever you want to rebuild. Then, when that comes into FEMA, we will be working with the FEMA folks in reviewing those things at a second tier level, to make sure that these people, in fact, have met all the minimum requirements for eligibility, have the adequate documentation to support their costs. If they are using contractors, which they will, to reconstruct, we will determine whether they have adequate procurement controls, things of that nature.

We are working with the State auditors to go out and visit all of the parishes and the local towns, before they receive any money, and to evaluate their ability to account for the money, because many of these parishes and townships are so small that they have never had to be held accountable for such large sums of money. We will be advising them from our own lessons learned, about types of things that are going to get you in trouble. Instruct them on their documentation requirements, accounting requirements, things of that nature. During the pre-award phase, we will be using contractors to supplement our staff to do pre-award audits of those local entities and State entities that will be receiving FEMA funds.

Mr. BURGESS. Who is going to have the jurisdiction to prosecute if something goes wrong, and money is misapplied or misspent?

Mr. SKINNER. We have two places to go to. First, we will go to the Department of Justice, and use the local U.S. Attorneys there. And incidentally, we have a taskforce that is being run right now by the Assistant Attorney General for the Criminal Division, and involves all the local U.S. Attorneys. The IGs participate on that taskforce, as well as the FBI, Postal Service, and others. So we are pretty confident that we will get attention at the Federal level, but in those cases where they may choose not to get involved, or our cases may not reach the threshold for Federal prosecution, we can work with the State or local prosecutors as well. We have prosecuted at the local level in the past, when we were unable to get prosecution at the Federal level.

Mr. BURGESS. Okay. Thank you, Mr. Chairman. I appreciate the extra time.

Mr. WHITFIELD. Thank you, Mr. Burgess, and I want to thank all of you for being with us today. I want to announce that the record will be kept open for 30 days, in case any members who were unable to be here want to submit an opening statement. I want to confirm with you all as I had asked in the opening statement, that at the end of 3 months, that you all would just give us a progress report for each of your agencies on how you are coming along with Katrina, and the problems you are facing there, progress report.

Also, Mr. Gimble, if you would submit to the committee the information that Mr. Pickering had asked for, and then I think Mr. Skinner, you were also going to provide information that Ms. Schakowsky had asked for about the Blackwater, and she was asking about the contract in New Orleans, and whether it was with the State or with the Federal Government.

Mr. SKINNER. I will provide details on that contract, amounts, the timeframes, and——

Mr. WHITFIELD. Okay.

Mr. SKINNER. [continuing] and how that contract was let.

Mr. WHITFIELD. Okay. With that, the hearing is concluded. Thank you all again for your patience, and we look forward to working with you as we move forward.

[Whereupon, at 2:10 p.m., the Subcommittee was adjourned.]

[Additional material received for the record follows:]

U.S. DEPARTMENT OF COMMERCE
Office of the Inspector General

The Honorable MARSHA BLACKBURN
U.S. House of Representatives
509 Cannon House Office Building
Washington, D.C. 20515

DEAR REPRESENTATIVE BLACKBURN: I appreciated the pportunity to testify at the September 28 oversight hearing regarding my office's plans to monitor Commerce spending on hurricane relief and recovery efforts. I am writing to follow-up on your question pertaining to requirements on small and minority businesses to ensure opportunities to compete fairly in hurricane cleanup and recovery.

Commerce has several initiatives to help ensure that small and minority firms have access to information about contracting opportunities. For example, the Department set up a Hurricane Contract Information Center and a call center to help businesses, particularly small, minority, and women-owned firms, learn about the contracting process. In addition, the Minority Business Development Agency has announced that it has diverted $300,000 in FY 2005 funds to an existing Minority Business Development Center in Houston to help provide direct, on-the-ground assistance for minority businesses seeking reconstruction contracts.

My office is currently monitoring the Department's efforts to provide assistance to the communities, businesses and individuals affected by this year's hurricanes. As part of that work, we are tracking the expenditure of Commerce funds, including those funds used to assist small and minority businesses in competing for hurricane relief and recovery contracts. As we continue monitoring the Department's hurricane relief activities, my office will pay particular attention to the Department's efforts to provide assistance to minority businesses.

If you have any questions or require additional information, please contact me at (202) 482-4661, or have your staff contact Susan Carnohan, Congressional Liaison, at (202) 482-2187.

Sincerely

JOHNNIE E. FRAZIER

cc: Representative Ed Whitfield, Chair
Representative Bart Stupak, Ranking Member

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